Notice of 1999 Annual Meeting

Proxy Statement

Consolidated Financial Statements and Management's Discussion and Analysis

Hershey Foods

March 15, 1999

To Our Stockholders:

It is my pleasure to invite you to attend the 1999 Annual Meeting of Stockholders of Hershey Foods Corporation, to be held at 2:00 p.m. on April 27, 1999. The meeting location has changed from prior years and will be held at The Hershey Lodge & Convention Center located on West Chocolate Avenue and University Drive, Hershey, Pennsylvania. A map providing directions to The Hershey Lodge is on the back cover of this Proxy Statement. Refreshments will be available prior to the Annual Meeting. After the Annual Meeting, you will be entitled to receive a product sample by exchanging the agenda provided to you at the meeting. The doors to the refreshment room will open at 12:30 p.m. and the doors to the Annual Meeting room will open at 1:00 p.m.

We also invite you to visit HERSHEY'S CHOCOLATE WORLD Visitors Center from 9:00 a.m. to 6:00 p.m. on the day of the Annual Meeting. We will again be offering stockholders a special 25% discount on confectionery products and Hershey's gift and souvenir items.

Business scheduled to be considered at the meeting includes the election of eleven directors and the approval of the appointment of Arthur Andersen LLP as independent public accountants for the Corporation for 1999. Additional information concerning these matters is included in the Notice of Annual Meeting and Proxy Statement. Members of management will also review with you the Corporation's operations during the past year and will be available to respond to questions during the meeting.

If you plan to attend the meeting, please bring the admission ticket located on the bottom half of your proxy card with you to the meeting. If your shares are currently held in the name of your broker, bank or other nominee and you wish to attend the meeting, you should obtain a letter from your broker, bank or other nominee, or bring your most recent account statement, indicating that you are the beneficial owner of a stated number of shares of stock as of the record date, March 1, 1999. You will need to show the letter from your broker, bank or nominee or your account statement at CHOCOLATE WORLD to receive the special discount.

To assure proper representation of your shares at the meeting, please submit your proxy voting instructions. Two methods of voting your shares are available this year. Telephone voting is fast, convenient and your vote is immediately confirmed and posted. See the instructions for voting by telephone on the enclosed proxy card. If you choose not to vote by telephone, please carefully mark the enclosed proxy card; then sign, date and return it at your earliest convenience.

I look forward to seeing you at the meeting.

Sincerely yours,

Kenneth L. Wolfe
Chairman of the Board and
Chief Executive Officer

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Hershey Foods Corporation

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

on

April 27, 1999

The Annual Meeting of Stockholders of HERSHEY FOODS CORPORATION will be held at 2:00 p.m. on April 27, 1999 at The Hershey Lodge & Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania for the following purposes:

(1) To elect eleven directors;

(2) To approve the appointment of Arthur Andersen LLP as the Corporation's independent public accountants for 1999; and

(3) To transact such other business as may properly be brought before the meeting and any and all adjournments thereof.

In accordance with the By-Laws and action of the Board of Directors, stockholders of record at the close of business on March 1, 1999 will be entitled to notice of, and to vote at, the meeting and any and all adjournments thereof.

By order of the Board of Directors,

Robert M. Reese
Senior Vice President,
General Counsel and Secretary

March 15, 1999

Kindly mark, sign and date the enclosed proxy card and return it promptly in the enclosed postage-paid envelope whether or not you plan to attend the meeting in person, or if you prefer, please follow the instructions on the enclosed proxy card for voting by telephone.

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of HERSHEY FOODS CORPORATION, a Delaware corporation (the "Corporation" or "Hershey Foods"), for use at the Annual Meeting of Stockholders which will be held at 2:00 p.m., Tuesday, April 27, 1999 at The Hershey Lodge & Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania, and at any and all adjournments of that meeting. This Proxy Statement and the enclosed proxy card are being sent to stockholders on or about March 15, 1999. The Corporation's principal executive offices are located at 100 Crystal A Drive, Hershey, Pennsylvania 17033.

Shares represented by properly voted proxies received by the Corporation at or prior to the meeting will be voted according to the instructions indicated by such proxies. Unless contrary instructions are given, the persons named on the proxy card intend to vote the shares so represented **FOR** the election of the nominees for director named in this Proxy Statement and **FOR** approval of the appointment of Arthur Andersen LLP as the Corporation's independent public accountants for 1999. As to any other business which may properly come before the meeting, the persons named on the proxy card will vote according to their best judgment.

Proposal No. 1—ELECTION OF DIRECTORS

Eleven directors are to be elected at the meeting, each to serve until the next annual meeting and until his or her successor shall have been elected and qualified. Each of the nominees named in the following pages is currently a member of the Board of Directors. Mr. Vincent A. Sarni, currently a director, will be retiring from the Board as of the Annual Meeting of Stockholders on April 27, 1999, having reached the mandatory retirement age of 70. Pursuant to the Corporation's Certificate and By-Laws, one-sixth of the directors, which presently equates to two directors, is to be elected by the Corporation's Common Stock, one dollar par value, ("Common Stock") voting separately as a class. The two nominees receiving the greatest number of votes of the Common Stock voting separately as a class will be elected. Messrs. Mackey J. McDonald and Allan Z. Loren have been nominated by the Board of Directors for the two positions to be elected separately by the Common Stock. The remaining nine individuals listed have been nominated by the Board of Directors for the nine positions to be elected by the holders of the Common Stock and the Corporation's Class B Common Stock, one dollar par value, ("Class B Stock") voting together without regard to class. The nine nominees receiving the greatest number of votes of the Common Stock and Class B Stock voting together will be elected. In case any of the nominees should become unavailable for election for any reason not presently known or contemplated, the persons named on the proxy card will have discretionary authority to vote pursuant to the proxy for a substitute.

WILLIAM H. ALEXANDER, age 57, is Administrator of the Family Business Program, The Wharton School of the University of Pennsylvania, Philadelphia, Pennsylvania. Previously, he was with H. B. Alexander Enterprises, Inc. and held a number of management positions, including Vice President and General Manager, President and Chairman. A Hershey Foods director since 1995, he is a member of the Committee on Directors and Corporate Governance.

ROBERT H. CAMPBELL, age 61, is Chairman of the Board and Chief Executive Officer, Sunoco, Inc., Philadelphia, Pennsylvania, a petroleum refiner and marketer. He has been Chief Executive Officer since 1991, Chairman of the Board since 1992 and has been a Director of Sunoco, Inc. since 1988. A Hershey Foods director since 1995, he chairs the Compensation and Executive Organization Committee and is a member of the Audit Committee. He is also a director of CIGNA Corporation.

DR. C. McCOLLISTER EVARTS, age 67, is Senior Vice President for Health Affairs, Dean of the College of Medicine, and Professor of Orthopaedics, The Pennsylvania State University, College of Medicine and University Hospitals, The Milton S. Hershey Medical Center, Hershey, Pennsylvania. He is also the President and Chief Academic Officer of the Penn State Geisinger Health System. He serves on the Board of Directors of Carpenter Technology Corporation. A Hershey Foods director since 1996, he is a member of the Compensation and Executive Organization Committee.

BONNIE GUITON HILL, age 57, is President and Chief Executive Officer of The Times Mirror Foundation; Vice President of The Times Mirror Company, a news and information company; and Senior Vice President, Communications and Public Affairs, *The Los Angeles Times,* Los Angeles, California. Previously she was Dean, McIntire School of Commerce, University of Virginia. A Hershey Foods director since 1993, she chairs the Audit Committee. She is also a director of AK Steel Corporation, Louisiana-Pacific Corporation, and Niagara Mohawk Power Corporation.

JOHN C. JAMISON, age 64, is Chairman of the Board, Mallardee Associates, a privately-held corporate financial services firm, Williamsburg, Virginia. A Hershey Foods director since 1974, he is a member of the Committee on Directors and Corporate Governance. He is also a director of Richfood Holdings, Inc.

ALLAN Z. LOREN, age 60, is Executive Vice President and Chief Information Officer of American Express Company, New York, a travel and financial services company. Prior to joining American Express in 1994, he was President and Chief Executive Officer of Galileo International and previously was a senior executive at Apple Computer. A Hershey Foods director since 1999, he is also a director of Reynolds & Reynolds and the Venator Group. He has been nominated for election by the Common Stock as a class.

MACKEY J. McDONALD, age 52, is Chairman of the Board, President and Chief Executive Officer of VF Corporation, Greensboro, North Carolina, an international apparel company. He was elected Chairman of the Board of VF Corporation in 1998. He had been Chief Executive Officer since 1996 and President since 1993. He is also a director of First Union Corporation. A Hershey Foods director since 1996, he is a member of the Audit Committee and the Compensation and Executive Organization Committee. He has been nominated for election by the Common Stock as a class.

MICHAEL F. PASQUALE, age 51, is Senior Vice President, Confectionery and Grocery, Hershey Foods Corporation. He served as President, Hershey Chocolate U.S.A. and President, Hershey Chocolate North America, from 1994 through 1998. A director of the Corporation since 1999, he serves as a member of the Executive Committee. He is also a director of Minerals Technologies, Inc.

JOHN M. PIETRUSKI, age 66, is Chairman of the Board of Texas Biotechnology Corporation, Houston, Texas, a pharmaceutical research and development company. A Hershey Foods director since 1987, he is a member of the Audit Committee and the Committee on Directors and Corporate Governance. Mr. Pietruski is also a director of GPU, Inc., Lincoln National Corporation, and Professional Detailing Inc.

JOSEPH P. VIVIANO, age 60, is Vice Chairman of the Board, Hershey Foods Corporation. He was President and Chief Operating Officer, Hershey Foods Corporation, from 1994 through 1998. A director of the Corporation since 1986, he serves as a member of the Executive Committee. He is also a director of Chesapeake Corporation, Harsco Corporation and Huffy Corporation.

KENNETH L. WOLFE, age 60, is Chairman of the Board and Chief Executive Officer, Hershey Foods Corporation. He was elected President and Chief Operating Officer in 1985 and has served in his current positions since 1994. A director of the Corporation since 1984, he chairs the Executive Committee and serves as a member of the Committee on Directors and Corporate Governance. He is also a director of Bausch & Lomb Inc. and Carpenter Technology Corporation.

The Board of Directors recommends a vote FOR the director nominees listed above, and proxies which are returned will be so voted unless otherwise instructed.

BOARD COMMITTEES

The Board of Directors has four standing committees. These are the Audit Committee, the Committee on Directors and Corporate Governance, the Compensation and Executive Organization Committee, and the Executive Committee. In addition to the four standing committees, from time to time the Board establishes committees of limited duration for special purposes.

Audit Committee — 3 meetings in 1998

Members:

Bonnie Guiton Hill (Chair)
Robert H. Campbell
Mackey J. McDonald
John M. Pietruski

Responsibilities:

Recommends the appointment of the Corporation's independent public accountants;

Reviews the scope and results of the annual audit of the independent public accountants and the Corporation's internal auditors;

Reviews non-audit professional services provided by the independent public accountants;

Reviews with management and the independent public accountants the Corporation's system of internal accounting controls;

Reviews compliance by the Corporation and its employees with laws and regulations applicable to the Corporation's business and with the Corporation's Code of Ethical Business Conduct; and

Reviews the activities and recommendations of the Corporation's Internal Audit Department.

Committee on Directors and Corporate Governance 4 meetings in 1998

Members:

Vincent A. Sarni (Chair)
William H. Alexander
John C. Jamison
John M. Pietruski
Kenneth L. Wolfe

Responsibilities:

Reviews and makes recommendations on the composition of the Board and its committees;

Evaluates and recommends candidates for election to the Board;

Administers the Directors' Compensation Plan; and

Reviews and makes recommendations to the full Board on corporate governance matters and the Board's corporate governance policies.

The Committee will consider nominees recommended by stockholders. Such recommendations should be sent to the Secretary of the Corporation, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810, and should include the proposed nominee's name, address and biographical information.

Compensation and Executive Organization Committee 5 meetings in 1998

Members:

Robert H. Campbell (Chair)
C. McCollister Evarts, M.D.
Mackey J. McDonald
Vincent A. Sarni

Responsibilities:

Establishes the salaries of the Corporation's elected officers;

Grants performance stock units, stock options and other rights under the Corporation's Key Employee Incentive Plan ("KEIP");

Establishes target-award levels and makes awards under the Annual Incentive Program and the Long-Term Incentive Program of the KEIP;

Administers the KEIP, the Employee Benefits Protection Plan, and the Supplemental Executive Retirement Plan;

Monitors compensation arrangements for management employees for consistency with corporate objectives and stockholders' interests;

Reviews the executive organization of the Corporation; and

Monitors the development of personnel available to fill key management positions as part of the succession planning process.

Executive Committee 8 meetings in 1998

Members:	Kenneth L. Wolfe (Chair) Joseph P. Viviano
Responsibilities:	Reviews and recommends to the full Board for approval major capital projects and expenditures. Oversees the administration of and revisions to the Corporation's retirement and welfare benefit plans, including the pension plans covered by the Employee Retirement Income Security Act of 1974.

DIRECTORS' ATTENDANCE

There were 7 regular meetings of the Board of Directors during 1998. No director attended less than 82% of the sum of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which he or she served during 1998. Average attendance for all of these meetings equaled 97%.

DIRECTORS' COMPENSATION

Annual Retainer	$42,500
Annual Retainer for Committee Chairs	$ 3,000
Board Attendance Fee (per meeting)	$ 1,500
Committee Attendance Fee (per meeting)	$ 1,000

Directors who are employees of the Corporation receive no remuneration for their services as directors.

One-third of the annual retainer must be paid in Common Stock. The remainder may be taken in cash or Common Stock (meeting and chair fees are payable in cash only). A director may also defer receipt of the retainer and meeting fees until their retirement as a director.

All directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the Board and its committees and for minor incidental expenses incurred in connection with performance of directors' services. In addition, directors are provided with travel accident insurance while traveling on the Corporation's business; receive the same discounts as employees on the purchase of the Corporation's products; and are eligible to participate in the Corporation's Higher Education Gift Matching Program.

The Corporation maintains a Directors' Charitable Award Program for individuals who became directors prior to December 31, 1996. This program is a self-funded life insurance program on the directors and funds charitable donations by the Corporation to educational institutions designated by the directors. The amount of the donation varies according to the director's length of service as a director, up to a maximum donation of $1,000,000 after five years of service. Seven current directors and ten retired directors participate in the program. The amount of the charitable donation per current participating director is $1,000,000, except for Mr. Alexander, Mr. Campbell, Dr. Evarts and Mr. McDonald for whom the current amount is $600,000, because of their shorter length of service as directors.

Proposal No. 2—APPOINTMENT OF AUDITORS

The Board of Directors, on the recommendation of the Audit Committee, has appointed Arthur Andersen LLP as independent public accountants of the Corporation for the year ending December 31, 1999. Although not required to do so, the Board of Directors is submitting the appointment of that firm for approval at the Annual Meeting. Arthur Andersen LLP has audited the Corporation's financial statements since 1927 and is considered to be well qualified. If the appointment is not approved, the Board of Directors will reconsider its appointment. Representatives of Arthur Andersen LLP will be present at the meeting with the opportunity to make a statement if they so desire and will be available to respond to questions.

The affirmative vote of a majority of the votes represented at the meeting in person or by proxy of the Common Stock and Class B Stock voting together without regard to class is required for approval of the appointment of auditors.

The Board of Directors recommends a vote FOR Proposal No. 2, and proxies which are returned will be so voted unless a contrary vote is designated.

VOTING SECURITIES

The Corporation has shares of two classes of stock outstanding, Common Stock and Class B Stock. At the close of business on March 1, 1999, the record date for the Annual Meeting, there were outstanding 109,262,899 shares of Common Stock, and 30,446,908 shares of Class B Stock, all of which are entitled to vote. Holders of record of the Corporation's Common Stock on March 1, 1999 will be entitled to cast one vote for each share held, and holders of record of the Class B Stock on March 1, 1999 will be entitled to cast ten votes for each share held. The Common Stock is entitled to cash dividends 10% higher than those declared on the Class B Stock.

According to the Corporation's By-Laws, the presence in person or by proxy of the holders of a majority of the votes entitled to be cast of the outstanding Common Stock and Class B Stock, respectively, shall constitute quorums for matters to be voted on separately by the Common Stock as a class and the Class B Stock as a class. The presence in person or by proxy of the holders of a majority of the votes entitled to be cast by the combined outstanding shares of the Common Stock and the Class B Stock shall constitute a quorum for matters to be voted on without regard to class.

The vote required for approval of any matter which may be the subject of a vote of the stockholders is provided for in the Corporation's Restated Certificate of Incorporation, as amended (the "Certificate"), and By-Laws. The specific vote requirements for the proposals being submitted to a stockholder vote at this year's Annual Meeting are set forth under the description of each proposal in this Proxy Statement.

Abstentions and broker non-votes are counted for the purpose of determining whether a quorum is present at the Annual Meeting. For the purpose of determining whether a proposal (except for the election of directors) has received a majority vote, abstentions will be included in the vote totals with the result that an abstention will have the same effect as a negative vote. In instances where brokers are prohibited from exercising discretionary authority for beneficial owners who have not returned a proxy (broker non-votes), those shares will not be included in the vote totals and, therefore, will have no effect on the vote.

As of March 1, 1999, stockholders noted in the following table owned the indicated number of shares of the Corporation's Common Stock (including Common Stock equivalent shares) and Class B Stock. Unless otherwise indicated in a footnote, the individuals listed below have voting and disposition power over the shares indicated. The voting and disposition power over the shares held by the Milton Hershey School and School Trust and the Hershey Trust Company are as indicated in the section entitled "Description of the Milton Hershey School Trust and Hershey Trust Company."

Holder	Common Stock[1]	Common Stock Equivalents[2]	Deferred Perform. Stock Units[3]	Percent of Common Stock	Class B Common Stock	Percent of Class B Stock
Milton Hershey School Trust Hershey, PA[4] / Hershey Trust Company Hershey, PA[4]	12,276,671			11.2%	30,306,006	99.5%
Hershey Trust Company[4]	666,187			**		
W. H. Alexander*[5]	2,636	2,027		**		
R. H. Campbell*	1,055	3,471		**		
J. F. Carr	6,341		20,682	**		
W. F. Christ	32,279		24,412	**		
C. M. Evarts, M.D.*	670	1,293		**		
B. Guiton Hill*[6]	1,194	1,560		**		
J. C. Jamison*	10,800	4,557		**		
A. Z. Loren*	100			**		
M. J. McDonald*	400	1,427		**		
M. F. Pasquale*	58,548		8,404	**		
J. M. Pietruski*	4,800	4,525		**		
V. A. Sarni*	4,288	2,413		**		
J. P. Viviano*	95,641		30,126	**		
K. L. Wolfe*	133,231		10,026	**		
All directors and executive officers as a group (17 persons)	392,693	21,273	106,743			

* Director
** Less than 1%

(1) The executive officers listed above also hold the following number of stock options which are exercisable as of March 1, 1999:

Person	Number of Shares
J. F. Carr	56,800
W. F. Christ	76,800
M. F. Pasquale	109,250
J. P. Viviano	172,650
K. L. Wolfe	257,000
Executive Officers as a Group	724,300

(2) These are Common Stock units credited under the Directors' Compensation Plan. The shares are fully vested and may be paid out in Common Stock shares upon the expiration of the deferral period.

(3) These units are Common Stock equivalents which are deferred under the Corporation's Key Employee Incentive Plan. These units may be paid in full or in part in Common Stock and are fully vested.

(4) See "Description of the Milton Hershey School Trust and Hershey Trust Company" for further information on the voting of these securities.

(5) Includes 1,236 shares held in trust for which Mr. Alexander is trustee.

(6) Includes 150 shares held in trust by Ms. Guiton Hill's husband.

Description of the Milton Hershey School Trust and Hershey Trust Company

Milton Hershey School, a non-profit school for the full-time care and education of disadvantaged children located in Hershey, Pennsylvania, is the sole beneficiary of the trust established by Milton S. and Catherine S. Hershey in 1909. Investment decisions with respect to securities held by Hershey Trust Company, as Trustee for the benefit of Milton Hershey School ("Milton Hershey School Trust"), are made by the Board of Directors of Hershey Trust Company, as Trustee, with the approval of the Board of Managers (governing body) of Milton Hershey School. Decisions regarding the voting of such securities are made by the Board of Directors of Hershey Trust Company, as Trustee for the benefit of Milton Hershey School. The Milton Hershey School Trust will be entitled to cast 12,276,671 of the total 109,262,899 votes, or 11.2%, entitled to be cast on matters required to be voted on separately by the holders of the Common Stock, and 315,336,731 of the total 413,731,979 votes, or 76.2%, entitled to be cast by the holders of the Common Stock and the Class B Stock voting together on matters to be voted on without regard to class.

Hershey Trust Company is a state-chartered trust company and holds 389,187 shares of the Corporation's Common Stock in its capacity as institutional fiduciary for 65 estates and trusts unrelated to the Milton Hershey School Trust. The Hershey Trust Company also holds 277,000 shares of Common Stock as investments. Investment decisions and decisions with respect to voting of securities held by Hershey Trust Company as institutional fiduciary and as investments are made by the Board of Directors or management of Hershey Trust Company.

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School, as fiduciary of the above-noted individual trusts and estates, and as direct owner of investment shares, will be entitled to vote 12,942,858 shares of Common Stock and 30,306,006 shares of Class B Stock at the meeting.

Pursuant to the Corporation's Certificate, all holders of Class B Stock, including the Milton Hershey School Trust, are entitled to convert any or all of their Class B Stock shares into shares of Common Stock at any time on a share-for-share basis. In the event the Milton Hershey School Trust ceases to hold more than 50% of the outstanding shares of the Class B Stock and at least 15% of the

total outstanding shares of both the Common Stock and Class B Stock, all shares of the Class B Stock will automatically be converted into shares of the Common Stock on a share-for-share basis. The Corporation's Certificate requires the approval of the Milton Hershey School Trust prior to the Corporation issuing shares of Common Stock or undertaking any other action which would cause the Milton Hershey School Trust to cease having voting control of the Corporation.

All of the outstanding shares of Hershey Trust Company are owned by the Milton Hershey School Trust. The members of the Board of Managers of Milton Hershey School are appointed by and from the Board of Directors of Hershey Trust Company. There are eighteen members of the Board of Directors of Hershey Trust Company and of the Board of Managers of Milton Hershey School, including William H. Alexander and Dr. C. McCollister Evarts, who are also members of the Board of Directors of the Corporation, and Kenneth L. Wolfe, who is also a director and Chairman of the Board and Chief Executive Officer of the Corporation. Dr. Evarts is also Chair of the Board of Directors of Hershey Trust Company and of the Board of Managers of Milton Hershey School. Directors of Hershey Trust Company and members of the Milton Hershey School Board of Managers individually are not considered to be beneficial owners of the Corporation's shares of Common Stock or Class B Stock held by the Milton Hershey School Trust.

1998 EXECUTIVE COMPENSATION

Compensation and Executive Organization Committee Report on Executive Compensation

The Compensation and Executive Organization Committee of the Board of Directors ("Committee") is composed entirely of non-employee directors, and is responsible for the establishment and oversight of the Corporation's executive compensation program.

Executive Compensation Philosophy

The Corporation's executive compensation program is designed to meet the following objectives:

To connect the interests of the executive officers with corporate performance and the interests of stockholders;

To attract, retain and motivate executive talent;

To assure that a significant portion of the executive officers' total compensation is dependent upon the appreciation of the Corporation's Common Stock; and

To provide a balanced total compensation package that recognizes the individual contributions of the executive officers and the overall business results of the Corporation.

Each year the Committee conducts a full review of the Corporation's executive compensation program. The annual compensation review permits an ongoing evaluation of the link between the Corporation's performance and its executive compensation in the context of the compensation programs of other companies. This review is performed periodically with the assistance of an independent outside consultant whose services are retained by the Corporation. The Committee reserves the right to select and/or meet independently with any consultant at its discretion. This annual review includes analyzing survey data comparing the competitiveness of the Corporation's executive compensation, corporate performance, stock price appreciation and total return to stockholders with a peer group of companies representing the Corporation's most direct food industry competitors for executive talent. The Committee also considers compensation data compiled from surveys of a broader group of general industry companies, some of which are from the food industry. In the performance graph on page 21, the Corporation's performance is compared to the Standard and

Poor's Food Group Index. The peer group considered relevant for the Corporation's compensation comparison purposes does not include all of the companies in the Food Group Index as compensation data on all such companies is not readily available. Also, the peer group includes some companies that are not in this index because the Corporation selects those companies it believes to be the most relevant and direct competitors for executive talent. The Committee reviews which peer companies are selected for compensation analysis.

In the review of survey data, a statistical process involving regression analysis is used to determine competitive compensation levels. This approach adjusts compensation levels for factors such as net sales, return on equity, and time in position within the organization in determining predicted values or "going rates" within the marketplace for each element of compensation. The Corporation targets total compensation "at or above" such "going rates."

As a result of this review and other considerations, the Corporation took several actions throughout 1998 to adjust the executive compensation program described herein. First, the survey results reviewed by the Committee showed that over the past three years there has been a shortfall, versus competitive peer group companies, in the long-term portion of the Corporation's executive compensation program. To address this shortfall, the Committee made a supplemental grant of stock options in February to key executives of the Corporation. The Corporation's Supplemental Executive Retirement Program was amended to revise the interest rate and mortality factors used to calculate lump sum payments under the plan and to require participants to give advance notice of their retirement in order to receive a lump sum distribution. Finally, the Corporation's Key Employee Incentive Plan ("Incentive Plan") was amended to increase the authorized number of shares.

The Committee believes the holding of significant equity interests in the Corporation by management aligns the interests of stockholders and management. Through the programs described in this report, a very significant portion of each executive officer's total compensation is linked directly to individual and corporate performance and stock price appreciation.

The key elements of the Corporation's executive compensation program consist of base salary, an annual cash incentive program, and a long-term incentive program consisting of performance stock units and stock options. Incentives play an important role in motivating executive performance and in aligning executive pay practices with the interests of the stockholders. The Corporation's executive compensation program is intended to reward achievement of both short-term and long-term business goals. To ensure proper balance in the achievement of these business objectives, the incentive program places greater dollars at risk in long-term incentives compared to short-term incentives. The long-term incentive program is especially designed to assure that the Corporation's executive officers have a significant portion of their total compensation tied to factors which affect the performance of the Corporation's Common Stock.

The Committee determined the total compensation of K. L. Wolfe, Chairman of the Board and Chief Executive Officer, and it reviewed and approved the total compensation of the most highly-compensated executive officers, including the individuals whose compensation is detailed in this Proxy Statement. This is designed to ensure consistency throughout the executive compensation program.

The Committee's policies with respect to each of the elements of the executive compensation program, including the basis for the compensation awarded to Mr. Wolfe, are discussed below. While the elements of compensation are described separately below, the Committee considers the total compensation package afforded by the Corporation when determining each component of the executive officer's compensation, including pension benefits, supplemental retirement benefits, insurance and other benefits.

Base Salaries

Base salaries for new executive officers are initially determined by evaluating the responsibilities of the position held and the experience of the individual, and by reference to the salaries paid in the competitive marketplace for executive talent, including a comparison of base salaries for comparable positions at other companies.

Salary reviews are conducted annually and salary adjustments are made based upon the performance of the Corporation and of each executive officer and their position in the applicable salary grade. The Committee considers both financial and, where appropriate, non-financial performance measures in making salary adjustments. Base salaries for executive officers and all other salaried employees are set within salary ranges established for the position as determined through the annual competitive salary surveys described above. In the case of executive officers with responsibility for a particular business unit, such unit's financial results are also considered.

With respect to the base salary granted to Mr. Wolfe in 1998, the Committee made a favorable assessment of the Corporation's actual business results versus plan goals and the results achieved by Mr. Wolfe on various objectives the Committee established in 1997. The Committee also considered Mr. Wolfe's relative position in his salary grade. Based on these factors, the Committee increased Mr. Wolfe's salary by $75,000, an 11.4 % increase.

Annual Incentive Program

The Corporation's executive officers, as well as other key management and professional employees, are eligible for an annual cash incentive award under the Annual Incentive Program ("AIP") of the Incentive Plan. Participating executive officers are eligible to earn individual awards expressed as a percentage of base salary.

The final award is the product of the executive officer's base salary, the applicable target percentage, a corporate or business unit performance score and an individual performance score. Individual and short-term (annual) corporate and business unit performance objectives are established at the beginning of each year by the Committee. For executive officers at the corporate level, the performance objectives for AIP award payments for 1998 were based on financial measures including earnings per share, economic value added, free cash flow and the results of the implementation of an enterprise-wide information system. For executive officers at the business unit and shared service level, the performance objectives for 1998 were varying combinations of consolidated earnings per share, economic value added, free cash flow, business unit operating income and various sales growth and market share objectives. Adjustments are made to the performance results, if necessary, to take into account extraordinary or unusual items occurring during the performance year. Since the final award is the product of the factors described above, the corporate or business unit performance and individual performance scores are given equal weight in the formula. Performance scores in excess of the objectives for financial measures and/or individual performance expectations may result in the individual executive officer receiving more than his/her target percentage. The maximum corporate or business unit performance score for a plan participant is 175%. The maximum score on the individual performance score is 120%. The applicable individual performance score for the Chairman of the Board and Chief Executive Officer and Vice Chairman is 120% with the Committee having discretion to adjust this percentage downward. Guidelines have been established which in certain instances limit the personal performance score in relationship to the corporate or business unit scores. The range of the target percentages of base salary used in 1998 for annual cash incentive awards for executive officers was 25% to 60%, with the highest rate of 60% applicable only to Mr. Wolfe.

No annual cash incentive awards are granted unless a specific corporate performance level is achieved. This performance level is defined as the minimum rate of return which average total

invested capital must earn before any awards are paid. This is designed with the stockholders' interest in mind by assuring the Corporation achieves certain profitability levels before any executive is granted an annual incentive award.

In 1998, corporate-level participants (which included Mr. Wolfe) in the AIP partially achieved the corporate performance objectives set for earnings per share, free cash flow, economic value added and implementation of the enterprise-wide information system. Based on these results, Mr. Wolfe was awarded a 1998 annual cash incentive award of $359,944.

Long-Term Incentive Program—Performance Stock Units

Performance stock units (PSUs) were contingently granted in 1998 under the Incentive Plan to members of the Corporation's senior executive group most in a position to affect the Corporation's long-term results (a combined total of 22 individuals in 1998). PSU grants are based upon a percent of the executive's annual salary. PSUs are granted every year and are earned based on the Corporation's performance over a three-year cycle. Each year begins a new three-year cycle. Provided the Corporation has achieved the established performance objectives at the end of the three-year cycle, a payment is made, either in stock, cash or a combination of both, based on the market value of the shares at the end of the cycle. In determining whether performance objectives have been achieved, specified adjustments established by the Committee can be made to the corporate performance to take into account extraordinary or unusual items occurring during the performance cycle. Payment may be deferred to a later date at the election of the executive. The value of each of the PSUs is tied to corporate performance (in determining what percentage of shares are earned) and stock price appreciation. The established performance measures are earnings per share, economic value added and cumulative free cash flow. The performance scores can range from 0% to 150%.

The Corporation has minimum stockholding guidelines for its executive officers and certain other key managerial and professional employees of the Corporation which require these individuals to accumulate gradually over time shares of Common Stock and/or deferred PSUs. The value equivalent of the shares which must be acquired and held is equal to a multiple of the individual's base salary. Minimum stockholding requirements for executive officers range from three to five times base salary. If the minimum has not been met, the executive officer is required to take the PSU award in Common Stock (net of withholding taxes) or deferred PSUs. For Mr. Wolfe, the applicable multiple in 1998 was five times his base salary.

In January 1996, each eligible member of the senior executive group was granted PSUs having a value at the time of grant equal to a percentage of their annual salary. This percentage was determined by the Committee based on the recommendation of senior management and competitive survey information. The performance objectives established for the grant for earnings per share, return on net assets and cumulative free cash flow were exceeded for the period ended December 31, 1998. Accordingly, Mr. Wolfe's award was valued at $1,456,946 based on the December 1998 average value of the PSUs from the 1996 grant.

In January 1998, eligible members of the senior executive group were granted new contingent PSUs. The grants were consistent with past practices. The "Long-Term Incentive Program Performance Stock Unit Awards in Year Ended—December 31, 1998" table in this Proxy Statement provides additional information regarding these grants for the five most highly-compensated executive officers.

Long-Term Incentive Program—Stock Options

Under the Incentive Plan, stock options are periodically granted to the Corporation's senior executive group as well as to other key management and professional employees. Stock options entitle

the holder to purchase during a specified time period a fixed number of shares of Common Stock at a set price.

The Committee sets guidelines for the number of stock options to be granted based on competitive compensation data gathered from survey information discussed above. The number of stock options granted is a function of the employee's base pay, stock option multiples for the employee's grade level and the imputed value of the option. The Committee also takes into account management's recommendations regarding the number of options to be awarded to specific employees as well as competitive pay practices within the food industry and the amount of options outstanding or previously granted. While stock options have been granted annually to members of the senior executive group, the Committee can elect not to grant stock options in a given year. Stock option recipients other than the senior executive group (over 500 key employees) generally receive stock option grants every two years.

Minimum stockholding requirements are applicable to stock options granted after 1995. If the minimums are not satisfied, an individual can receive only one-half of the after-tax profit from the option exercise in cash. The remaining one-half of the profit must be retained in Common Stock. Minimum stockholding requirements range from one to five times base salary. For Mr. Wolfe, the applicable multiple in 1998 was five times his base salary.

Stock options are designed to align the interests of executives with those of the stockholders. Stock options are granted with a ten-year term and an exercise price equal to the closing market price of the Common Stock on the day preceding the date of grant. Starting in 1997, options granted to the senior executive group have a two-year vesting requirement similar to that already applicable to the non-senior management group receiving options. This approach is designed as an incentive for future performance by the creation of stockholder value over the long-term since the benefit of the stock options cannot be realized unless stock price appreciation occurs.

In 1998, Mr. Wolfe received options to purchase 42,000 shares of Common Stock with an exercise price of $61.50 per share and 15,000 shares of Common Stock with an exercise price of $63.6875, the closing market price on the day preceding the grants.

Policy Regarding Tax Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986 (the "Code") provides that publicly-held companies may be limited in deducting certain compensation in excess of $1 million paid to the chief executive officer and the four other most highly-compensated officers. The Committee has considered the effect of Section 162(m) of the Code on the Corporation's executive compensation program to develop its policy with respect to the deductibility of the Corporation's executive compensation. It is the Committee's position that in administering the "performance based" portion of the Corporation's executive compensation program, it will attempt to comply with the requirements of Section 162(m). However, the Committee believes that it needs to retain the flexibility to exercise its judgment in assessing an executive's performance and that the total compensation system for executive officers should be managed in accordance with the objectives outlined in the "Executive Compensation Philosophy" section of this report and in the best overall interest of the Corporation's stockholders. Should compliance with Section 162(m) conflict with the "Executive Compensation Philosophy" or with what the Committee believes to be in the best interest of the stockholders, the Committee will act in accordance with the Philosophy and in the best interest of the stockholders, notwithstanding the effect of such action on deductibility for any given year. However, to assure that the Corporation does not lose deductions for compensation paid, the Committee has adopted a deferral policy requiring the executive to defer receipt of any compensation in excess of $1 million that is not deductible in any given year to the year in which such compensation would be deductible by the Corporation.

Conclusion

In 1998, as in previous years, a substantial portion of the Corporation's executive compensation consisted of performance-based variable elements. In the case of Mr. Wolfe, approximately 71% of his 1998 total compensation consisted of performance-based variable elements, without including stock options in the computation. The Committee intends to continue the policy of linking executive compensation to corporate performance and returns to stockholders.

SUBMITTED BY THE COMPENSATION AND EXECUTIVE ORGANIZATION COMMITTEE OF THE CORPORATION'S BOARD OF DIRECTORS:

Robert H. Campbell, Chairman C. McCollister Evarts, M.D. Mackey J. McDonald Vincent A. Sarni

Summary of Cash and Certain Other Compensation

The following table shows for the fiscal years ending December 31, 1998, 1997 and 1996 the cash compensation paid by the Corporation, as well as certain other compensation paid or accrued for those years, to each of the five most highly-compensated executive officers of the Corporation.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation		
Name and Principal Position	**Year**	**Salary[1]**	**Bonus[2]**	**Stock Option Awards**	**LTIP[3] Payouts**	**All Other[4] Compensation**
K. L. Wolfe Chairman and Chief Executive Officer	1998 1997 1996	$735,000 660,000 610,000	$359,944 778,750 787,815	57,000 47,500 61,000	$1,456,946 1,770,640 685,588	$ 4,000 4,000 3,750
J. P. Viviano Vice Chairman of the Board[5]	1998 1997 1996	$590,000 530,000 490,000	$230,642 610,051 533,691	35,950 32,250 41,500	$ 996,858 1,211,077 462,282	$ 4,000 4,000 3,750
M. F. Pasquale Senior Vice President, Confectionery and Grocery[6]	1998 1997 1996	$360,000 340,000 317,500	$152,280 248,710 254,722	21,300 19,650 25,500	$ 613,451 761,467 378,827	$ 4,000 4,000 3,750
W. F. Christ Senior Vice President, Chief Financial Officer and Treasurer	1998 1997 1996	$303,000 281,000 263,000	$118,135 281,787 237,765	15,350 13,100 17,000	$ 412,162 495,412 245,992	$54,000[7] 4,000 3,750
J. F. Carr Vice President, Research Services and Special Operations[8]	1998 1997 1996	$236,500 222,500 202,000	$140,624 196,032 168,596	8,200 9,200 11,600	$ 277,970 339,449 162,354	$ 4,000 4,000 3,750

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(1) This column includes amounts deferred pursuant to Section 401(k) of the Internal Revenue Code that were contributed by the executive officer to ESSIOP.

(2) This column represents annual cash incentive awards (paid out or deferred) attributable to services rendered for that year.

(3) This column reports the cash value earned in PSU payouts during each of the last three fiscal years at the end of the following three performance cycles: 1996-98, 1995-97 and 1994-96 under the KEIP which were paid or deferred in the fiscal year immediately following the last year of the respective three-year cycle.

(4) This column includes the Corporation's matching contributions to the individual's ESSIOP account for 1998, 1997 and 1996.

(5) During 1998 Mr. Viviano was President and Chief Operating Officer of the Corporation.

(6) During 1998 Mr. Pasquale was President, Hershey Chocolate North America.

(7) Includes a special award approved by the Board of Directors.

(8) During 1998 Mr. Carr was President, Hershey Pasta and Grocery Group.

Long-Term Incentive Program—Stock Options

The following table contains information concerning the grant of stock options under the Key Employee Incentive Plan to the five most highly-compensated executive officers of the Corporation as of the end of the last fiscal year:

Option Grants for the Year-Ended December 31, 1998

Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Stock Option Term	
Name	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees in 1998(2)	Exercise or Base Price ($/Sh)(3)	Expiration Date	5%(4)	10%(4)
K. L. Wolfe	42,000 15,000	3.3%	$61.50 $63.6875	1/19/08 2/03/08	$1,624,435 600,791	$4,116,637 1,522,522
J. P. Viviano	27,950 8,000	2.1%	$61.50 $63.6875	1/19/08 2/03/08	1,081,023 320,422	2,739,524 812,012
M. F. Pasquale	15,300 6,000	1.2%	$61.50 $63.6875	1/19/08 2/03/08	591,758 240,316	1,499,632 609,009
W. F. Christ	12,350 3,000	*	$61.50 $63.6875	1/19/08 2/03/08	477,661 120,158	1,210,487 304,504
J. F. Carr	7,200 1,000	*	$61.50 $63.6875	1/19/08 2/03/08	278,475 40,053	705,709 101,501
All Stockholders(5)	N/A	N/A	N/A	N/A	$5,527,504,241	$14,007,781,006

* Less than one percent

(1) All stock options listed in this column are subject to a two-year vesting period and have a ten-year term. The stock options having a $61.50 exercise price were granted on January 19, 1998 and stock options having a $63.6875 price were granted on February 3, 1998 and were granted at a price not less than 100% of the fair market value of the Common Stock on the date of grant determined as the closing price on the business day immediately preceding the date the stock options were granted. All stock options expire at the end of the stock option holder's employment, except in the case of a stock option held by an employee whose employment ends due to retirement, total disability or death, in which instance the employee or his estate may exercise the stock option within five years of the date of retirement, total disability or death (three years for options granted prior to 1997).

(2) In 1998, 501 employees were granted a total of 1,739,050 stock options.

(3) The exercise price may be paid in cash, shares of Common Stock valued at the fair market value on the date of exercise, or pursuant to a cashless exercise procedure under which the stock option holder provides irrevocable instructions to a brokerage firm to sell the purchased shares and to remit to the Corporation, out of the sales proceeds, an amount equal to the exercise price plus all applicable withholding taxes.

(4) The dollar amounts under these columns for all the individuals are the result of annual appreciation rates for the term of the options (10 years) as required by the Securities and Exchange Commission, and, therefore, are not intended to forecast possible future appreciation, if any, of the price of the Common Stock.

(5) For "All Stockholders," the potential realizable value on 142,914,431 shares, the number of outstanding shares of Common Stock and Class B Stock on January 19, 1998, is based on a $61.50 per share price and on February 3, 1998, is based on a $63.6875 per share price (the exercise prices of the 1998 options). The value of the Common Stock and Class B Stock at $61.50 per share was $8,789,237,507 and at $63.6875 per share was $9,101,862,824. If the calculation was based on the share price on February 3, 1998 of $63.6875 the potential realizable value for all stockholders of a 5% appreciation would be $5,724,112,624 and at 10% appreciation would be $14,506,025,249. The amounts listed under these columns for "All Stockholders" are the result of annual appreciation rates for a period of ten years from January 19, 1998 through January 19, 2008 and February 3, 1998 through February 3, 2008. The amounts are not intended to forecast possible future appreciation, if any, of the price of the Common Stock.

The following table sets forth information with respect to the named executives concerning the exercise of stock options during the last fiscal year and unexercised stock options held as of the end of the fiscal year:

Aggregated Option Exercises in Year-Ended December 31, 1998 and Year-End Option Values

	Shares		Securities Underlying Number of Unexercised Options at 12/31/98 (#)(1)		Value of Unexercised Options at 12/31/98 ($)(1)	
Name	Acquired on Exercise (#)(1)	Value Realized ($)	Exercisable	Unexercisable	Exercisable	Unexercisable
K. L. Wolfe	0	$ 0	209,500	104,500	7,420,906	869,031
J. P. Viviano	35,000	$1,633,363	140,400	68,200	4,960,700	589,638
M. F. Pasquale	0	0	89,600	40,950	3,177,775	358,078
W. F. Christ	0	0	63,700	28,450	2,278,919	240,197
J. F. Carr	0	0	47,600	17,400	1,717,950	167,675

(1) All of the stock options were granted under the Key Employee Incentive Plan. The fair market value of the Common Stock on December 31, 1998, the last trading day of the Corporation's fiscal year, was $62.1875.

Long-Term Incentive Program—Performance Stock Units

The following table provides information concerning performance stock unit grants made to the five most highly-compensated executive officers of the Corporation during the last fiscal year under the long-term incentive program portion of the Key Employee Incentive Plan. Payments made under the program for the three-year performance cycle ending December 31, 1998 are reported in the Summary Compensation Table.

Long-Term Incentive Program
Performance Stock Unit Awards in Year-Ended December 31, 1998

Name	Number of Shares, Units or Other Rights(1)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts		
			Threshold (#)(2)	Target (#)(3)	Maximum (#)(4)
K. L. Wolfe	10,500	3 years	875	10,500	15,750
J. P. Viviano	7,000	3 years	583	7,000	10,500
M. F. Pasquale	3,850	3 years	321	3,850	5,775
W. F. Christ	3,100	3 years	258	3,100	4,650
J. F. Carr	1,800	3 years	150	1,800	2,700

(1) The PSUs reported in this table were granted on January 19, 1998 for the cycle commencing January 1, 1998 and ending December 31, 2000.

For purposes of determining the number of grants, the value of each PSU is based on the average of the daily closing prices of the Common Stock on the New York Stock Exchange as reported in *The Wall Street Journal* for the December preceding the new three-year performance cycle.

The final value of the award is determined based upon three factors. The first is the number of PSUs awarded at the commencement of the three-year cycle. The second factor relates to the performance score as measured against predetermined earnings per share, economic value added and cumulative free cash flow objectives for the 1998-00 three-year cycle. The performance scoring can range from a minimum of 0% to a maximum of 150% achievement. The third factor involves the value per unit which is determined at the conclusion of the three-year cycle.

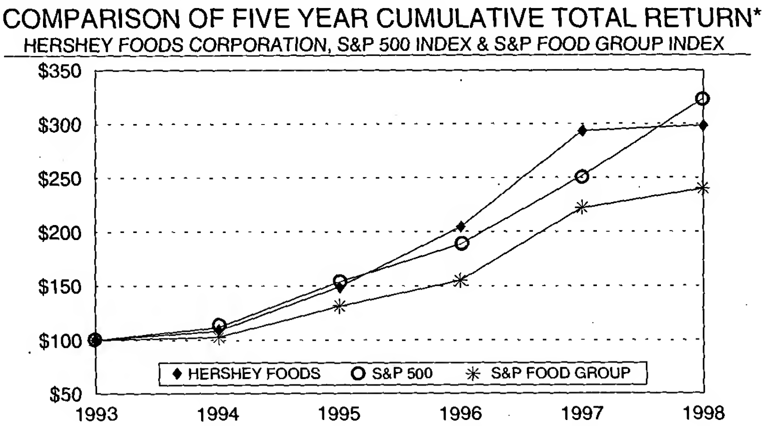
(2) This column lists the number of shares of Common Stock, the value of which would be payable to the named executives at the threshold achievement level of 8⅓%. If the achievement level at the end of the three-year cycle is less than this threshold, no payments are made.

(3) This column lists the number of shares of Common Stock, the value of which would be payable to the named executives at the target, or 100% achievement level.

(4) This column lists the number of shares of Common Stock, the value of which would be payable to the named executives at the 150% achievement level.

Performance Graph

The following graph compares the Corporation's cumulative total stockholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the Standard and Poor's 500 Index and the Standard and Poor's Food Industry Group Index.



	1993	1994	1995	1996	1997	1998
HERSHEY	$100	$108	$149	$204	$293	$299
S&P 500	$100	$111	$153	$189	$251	$323
S&P FOOD	$100	$103	$131	$155	$222	$240

*Total return assumes reinvestment of dividends.
Assumes $100 invested on 12/31/93 in Hershey Common Stock, S&P 500 Index and S&P Food Group Index.

Benefit Protection Arrangements

In August 1994, the Corporation entered into severance agreements ("Severance Agreements") with the five executive officers named in the Summary Compensation Table and other key management personnel. The terms of these Severance Agreements are consistent with the practices followed by other major public corporations in the U.S. and provide that in the event the executive's employment with the Corporation is terminated without "cause" within two years after a "change in control" of the Corporation, the executive is entitled to certain severance payments and benefits. A "change in control" is defined to include an event in which the Milton Hershey School Trust no longer holds voting control of the Corporation and another party acquires 25% or more of the combined voting power or common equity of the Corporation. Under the terms of the Severance Agreements, upon the executive's termination after a change in control as described above, and in order to assist the executive in transitioning to new employment, the executive generally would be entitled to receive in a lump sum three times the executive's base salary and annual incentive bonus. The executive would also be entitled to continuation of health benefits for such period and reimbursement for federal excise taxes payable (but not for income taxes payable). The executive would also become vested in benefits under existing compensation and benefit programs (including those described in this Executive Compensation section) and would generally be paid such benefits at the time of any such change in control.

The Milton Hershey School Trust has indicated to the Corporation that it intends to maintain voting control of the Corporation and therefore it is unlikely that the Severance Agreements would be utilized. The Milton Hershey School Trust has also indicated that it, however, accepts the position of the Corporation's Board of Directors that such arrangements are part of the usual and ordinary compensation packages at major public companies and are important to the Corporation's ability to attract and retain key employees.

Pension Plans

Executive officers are eligible to receive pension benefits payable under the Corporation's qualified defined benefit pension plan ("Pension Plan"), as well as the nonqualified supplemental executive retirement plan that provides benefits in excess of those that may be provided under plans (such as the Pension Plan) that are subject to limitations under the Internal Revenue Code. The combined benefit paid to a participant pursuant to these plans is equal to 55% of that individual's final average compensation. Final average compensation is determined by adding the participant's three years' average of base salary and five years' average annual cash incentive award. The combined amounts paid under the two plans are reduced by any applicable Social Security benefits received, by a specified percentage for each month that retirement occurs before age 60, and by a specified percentage for each year that retirement occurs prior to the individual completing 15 years of service with the Corporation.

The final average compensation and the estimated credited years of service as of December 31, 1998, respectively, for each of the named executive officers are: K. L. Wolfe, $1,224,584, 29.8 years; J. P. Viviano, $936,405, 30.7 years; M. F. Pasquale, $538,762, 19.4 years; W. F. Christ, $482,672, 28.2 years; and J. F. Carr, $366,680, 24.8 years.

VOTING OF PROXIES

A proxy may be revoked at any time before it is voted at the meeting by submitting to the Secretary of the Corporation a written notice revoking it, by a duly-executed proxy bearing a later date, by a telephone vote cast at a later date, or by voting by ballot at the meeting. Shares held for each participant in the Corporation's Automatic Dividend Reinvestment Service Plan or the Corporation's Employee Savings Stock Investment and Ownership Plan ("ESSIOP") will be voted by the plan trustee as directed by the participant's proxy. If an Automatic Dividend Reinvestment Service Plan participant does not return a proxy, the participant's shares in the plan will not be voted. If an ESSIOP participant does not return a proxy, that participant's shares will be voted by the plan trustee in the same proportion as the final aggregate votes of plan participants actually voting on the matter.

SOLICITATION OF PROXIES

The cost of preparing, assembling and mailing this proxy soliciting material and Notice of Annual Meeting of Stockholders will be paid by the Corporation. The Corporation has retained ChaseMellon Shareholder Services to assist in soliciting proxies for a fee of $4,750 plus reimbursement of reasonable out-of-pocket expenses. Additional solicitation by mail, telephone, telecopier or by personal solicitation may be done by directors, officers and regular employees of the Corporation, for which they will receive no additional compensation. Brokerage houses and other nominees, fiduciaries and custodians nominally holding shares of the Corporation's stock as of the record date will be requested to forward proxy soliciting material to the beneficial owners of such shares and will be reimbursed by the Corporation for their reasonable expenses.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Corporation's executive officers, directors and 10% stockholders are required under the Securities Exchange Act of 1934 to file with the Securities and Exchange Commission and the New York Stock Exchange reports of ownership and changes in ownership in their holdings of the Corporation's stock. Copies of these reports must also be furnished to the Corporation. Based on an examination of these reports and on written representations provided to the Corporation, all such reports have been timely filed, except that inadvertently a report was not timely filed in connection with one disposition of the Corporation's Common Stock by Mr. David W. Tacka, Corporate Controller and Chief Accounting Officer.

CERTAIN TRANSACTIONS AND RELATIONSHIPS

During 1998 the Corporation and its subsidiaries had a number of transactions with the Milton Hershey School, with the Milton Hershey School Trust, and with companies owned by the Milton Hershey School Trust, involving the purchase or sale of goods and services. These latter transactions were primarily with Hershey Entertainment & Resorts, an entertainment and resort company based in Hershey, Pennsylvania, and wholly-owned by the Milton Hershey School Trust.

The aggregate value of sales made during 1998 by the Corporation and its subsidiaries to the Milton Hershey School, the Milton Hershey School Trust, and companies owned by the Milton Hershey School Trust, amounted to approximately $850,000. During the year, the Corporation purchased goods and services from these entities in the amount of approximately $2,200,000. These transactions were on terms that the Corporation believes to be no less favorable to the Corporation than those which could have been obtained from other purchasers or vendors.

OTHER BUSINESS

It is not expected that any business other than that set forth in the Notice of Annual Meeting of Stockholders and more specifically described in this Proxy Statement will be brought before the meeting. However, if any other business should properly come before the meeting, it is the intention of the persons named on the enclosed proxy card to vote the signed proxies received by them in accordance with their best judgment on such business and any matters dealing with the conduct of the meeting.

STOCKHOLDER PROPOSALS AND NOMINATIONS

In accordance with the Corporation's By-Laws, stockholders (other than those holding 25% of the outstanding votes entitled to be cast) who do not submit proposals for inclusion in the Proxy Statement but who intend to present a proposal, nomination for director or other business for consideration at any meeting of stockholders, including any Annual Meeting, are required to notify the Secretary of the Corporation of their proposal or nomination and provide other information in advance of such meeting.

The 2000 Annual Meeting of Stockholders will be held on April 25, 2000. To be eligible for inclusion in the Corporation's Proxy Statement for the 2000 Annual Meeting of Stockholders, stockholder proposals must be received by the Corporation by November 15, 1999.

In accordance with the Corporation's By-Laws, stockholders (other than those holding 25% of the outstanding votes entitled to be cast) who do not submit proposals for inclusion in the Proxy Statement but who intend to present a proposal, nomination for director or other business for consideration at any meeting of stockholders, including any Annual Meeting, are required to notify the Secretary of the Corporation of their proposal or nomination and provide other information in advance of such meeting. Stockholders interested in making proposals at the 2000 Annual Meeting should submit their name and address, their shareholdings, a brief description of the proposal, and any financial or other interest they have in such proposal to the Corporation no later than February 25, 2000.

In addition, the Corporation's By-Laws require that a stockholder wishing to make a nomination for director at the 2000 Annual Meeting, who does not submit the nomination for inclusion in the Proxy Statement for such meeting, must submit the following information to the Corporation no later than February 25, 2000: name and address, a representation that the stockholder is a holder of record and intends to attend such meeting, a description of any arrangement between the stockholder and the individual planned to be nominated, the nominee's name, address and biographical information, and the consent of the nominee.

All notices for stockholder proposals and director nominations should be sent to the attention of the Secretary of the Corporation at 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

SUMMARY ANNUAL REPORT AND FORM 10-K

The Corporation will provide without charge to each beneficial owner of its Common Stock and Class B Common Stock, upon such stockholder's request, a copy (without exhibits) of the Corporation's Annual Report on Form 10-K for the year ended December 31, 1998 filed with the Securities and Exchange Commission. Requests for copies should be addressed to Hershey Foods Corporation, Investor Relations Department, 100 Crystal A Drive, Hershey, PA 17033-0810.

A copy of the Corporation's Summary Annual Report to Stockholders for the year ended December 31, 1998 accompanies this Proxy Statement. Appendix A to this Proxy Statement containing the Consolidated Financial Statements and Management's Discussion and Analysis comprises a portion of that report. The Summary Annual Report, the Appendix and the Annual Report on Form 10-K are not part of the Corporation's proxy solicitation materials.

By order of the Board of Directors,

Robert M. Reese
Senior Vice President,
General Counsel and Secretary

March 15, 1999

Stockholders who desire to have their stock voted at the meeting are requested to either (1) mark, sign, and date the enclosed proxy card and return it promptly in the enclosed postage-paid envelope or (2) follow the telephone voting instructions on the enclosed proxy card. Stockholders may revoke their proxies at any time prior to the meeting and stockholders who are present at the meeting may revoke their proxies and vote, if they so desire, in person.

Appendix A

Consolidated Financial Statements and Management's Discussion and Analysis

HERSHEY FOODS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Corporation achieved record sales and income levels in 1998, following a record performance in 1997. Results over the two-year period reflected a strategic acquisition and several divestitures, along with a significant contribution from the introduction of new confectionery products and solid growth from existing confectionery and grocery brands. Sales increases during the period were offset somewhat by lower sales of pasta products, a higher level of confectionery unsalables and the impact of currency exchange rates in the Canadian and Mexican markets.

Net sales during the two-year period increased at a compound annual rate of 5% and net income also increased at a compound annual rate of 5%, excluding the loss on disposal of businesses in 1996. The increase in net income over the period reflected the growth in sales, partially offset by lower gross margin and higher selling, marketing and administrative expenses.

The following acquisition and divestitures occurred during the period:

- December 1996—The acquisition from an affiliate of Huhtamäki Oy (Huhtamaki), the international foods company based in Finland, of Huhtamaki's Leaf North America (Leaf) confectionery operations for $437.2 million, plus the assumption of $17.0 million in debt. In addition, the parties entered into a trademark and technology license agreement under which the Corporation will manufacture and/or market and distribute in North, Central and South America Huhtamaki's confectionery brands including *Good & Plenty, Heath, Jolly Rancher, Milk Duds, PayDay* and *Whoppers.*
- December 1998—The announcement that the Corporation had signed a definitive agreement providing for the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction was completed in January 1999 and included the *American Beauty, Ideal by San Giorgio, Light 'n Fluffy, Mrs. Weiss, P&R, Ronzoni, San Giorgio* and *Skinner* pasta brands along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of $450.0 million, retained a 6% minority interest and recorded an after-tax gain of approximately $165.0 million or $1.13 per share—diluted as a result of the transaction.
- December 1996—The sale to Huhtamaki of the outstanding shares of Gubor Holding GmbH (Gubor) and Sperlari S.r.l. (Sperlari). Gubor manufactures and markets high-quality assorted pralines and seasonal chocolate products in Germany, and Sperlari manufactures and markets various confectionery and grocery products in Italy. The sale resulted in an after-tax loss of $35.4 million, since no tax benefit associated with the transaction was recorded. Combined net sales for Gubor and Sperlari were $216.6 million in 1996.
- January 1996—The sale of the assets of Hershey Canada, Inc.'s *Planters* nut (Planters) business to Johnvince Foods Group and the *Life Savers* and *Breath Savers* hard candy and *Beech-Nut* cough drops (Life Savers) business to Beta Brands Inc. Both transactions were part of a restructuring program announced by the Corporation in late 1994.

Net Sales

Net sales rose $133.4 million or 3% in 1998 and $312.9 million in 1997, an increase of 8%. The increase in 1998 was primarily a result of incremental sales from the introduction of new confectionery products and increased sales volume for existing confectionery and grocery products in North America. These increases were offset somewhat by a decline in sales in the Corporation's Asian and Russian markets and the impact of currency exchange rates in the Canadian and Mexican markets, in addition to higher levels of confectionery unsalables and lower sales of pasta products. The increase in

1997 was primarily due to incremental sales from the Leaf acquisition, increased sales of existing confectionery items and the introduction of new confectionery products. These increases were offset somewhat by lower sales resulting from the divestiture of the Gubor and Sperlari businesses and a decline in sales of pasta and grocery products.

Costs and Expenses

Cost of sales as a percent of net sales increased from 57.7% in 1996 to 57.9% in 1997, and to 59.2% in 1998. The decrease in gross margin in 1998 was principally the result of higher costs for certain major raw materials, primarily milk and cocoa, labor and overhead, higher shipping and distribution costs and the mix of non-chocolate and chocolate confectionery items sold in 1998 compared to 1997. These cost increases were partially offset by lower costs for certain raw materials and improved manufacturing efficiencies, including significant improvements in plants acquired with the Leaf business. The decrease in gross margin in 1997 was primarily the result of the lower margin associated with the Leaf business and higher costs associated with certain new products and seasonal items, partially offset by lower costs for certain major raw materials, primarily milk and semolina, and the favorable impact of the Gubor and Sperlari divestitures.

Selling, marketing and administrative costs decreased by 1% in 1998, as reduced marketing expenses for existing brands, lower selling expenses in international markets and lower administrative expenses were only partially offset by higher marketing expenses associated with the introduction of new products. Selling, marketing and administrative expenses increased by 5% in 1997, as a result of incremental expenses associated with the Leaf business and increased marketing expenses related to the introduction of new products, partially offset by decreases resulting from the Gubor and Sperlari divestitures and reduced marketing spending for existing brands.

Interest Expense, Net

Net interest expense in 1998 exceeded the prior year by $9.4 million, primarily as a result of increased borrowings associated with the purchase of Common Stock from the Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust), partially offset by lower interest expense reflecting reduced average short-term borrowings.

Net interest expense in 1997 was $28.2 million above prior year, primarily as a result of incremental borrowings associated with the Leaf acquisition and the purchase of Common Stock from the Milton Hershey School Trust. Fixed interest expense increased as a result of the issuance of $150 million of 6.95% Notes due 2007 in March 1997 and $150 million of 6.95% Notes due 2012 and $250 million of 7.2% Debentures due 2027 in August 1997.

Provision for Income Taxes

The Corporation's effective income tax rate was 43.1%, 39.3% and 38.8% in 1996, 1997 and 1998, respectively. The rate decreased from 39.3% in 1997 to 38.8% in 1998 primarily due to changes in the mix of the Corporation's income among various tax jurisdictions. The rate decreased in 1997 compared to 1996 primarily due to the lack of any tax benefit associated with the 1996 loss on disposal of businesses and the lower 1997 effective state income tax rate.

Net Income

Net income increased $4.6 million or 1% in 1998, following an increase of $63.1 million or 23% in 1997. Excluding the loss on the disposal of the Gubor and Sperlari businesses in 1996, 1997 income increased $27.7 million or 9%. Net income as a percent of net sales was 7.7% in 1998, 7.8% in 1997 and 6.8% in 1996. Income as a percent of net sales excluding the loss on the sale of the Gubor and Sperlari businesses was 7.7% in 1996.

FINANCIAL POSITION

The Corporation's financial position remained strong during 1998. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 54% as of December 31, 1998, and 60% as of December 31, 1997. The higher capitalization ratio in 1997 primarily reflected the additional borrowings to finance the purchase of Common Stock and the related decrease in stockholders' equity as a result of the additional treasury stock. The ratio of current assets to current liabilities was 1.4:1 as of December 31, 1998, and 1.3:1 as of December 31, 1997.

Assets

Total assets increased $112.9 million or 3% as of December 31, 1998, primarily as a result of increases in accounts receivable and other current and non-current assets.

Current assets increased by $99.2 million or 10% reflecting increased accounts receivable and higher prepaid expenses and other current assets. The increase in accounts receivable was primarily the result of the timing and payment terms associated with sales occurring toward the end of the year and the increase in prepaid expenses and other current assets was principally associated with commodities transactions. These increases were offset somewhat by lower deferred income taxes and reduced inventory levels.

Property, plant and equipment was slightly lower than the prior year as capital additions of $161.3 million were more than offset by depreciation expense of $138.5 million and the retirement and translation of fixed assets of $23.0 million. The increase in other non-current assets was primarily associated with the capitalization of software.

Liabilities

Total liabilities decreased by $76.6 million or 3% as of December 31, 1998, primarily due to a decrease in debt and lower accrued liabilities, partially offset by higher deferred income taxes. The increase in short-term debt of $113.5 million reflected the reclassification of commercial paper borrowings of $150.0 million which were classified as long-term debt as of December 31, 1997, partially offset by a reduction in short-term borrowings of $36.5 million in 1998. As of December 31, 1997, $150.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis. A similar reclassification was not recorded as of December 31, 1998, because the Corporation intends to reduce commercial paper borrowings during 1999. Accrued liabilities decreased by $77.1 million primarily reflecting commodities transactions and reduced accruals for marketing programs and integration costs related to the Leaf acquisition.

Stockholders' Equity

Total stockholders' equity increased by 22% in 1998, as net income exceeded dividends paid. Total stockholders' equity has increased at a compound annual rate of less than 1% over the past ten years reflecting the $1.3 billion of Common Stock repurchased since 1993.

Capital Structure

The Corporation has two classes of stock outstanding, Common Stock and Class B Common Stock (Class B Stock). Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

LIQUIDITY

Historically, the Corporation's major source of financing has been cash generated from operations. The Corporation's income and, consequently, cash provided from operations during the year are affected by seasonal sales patterns, the timing of new product introductions, business acquisitions and divestitures, and price increases. Chocolate, confectionery and grocery seasonal and holiday-related sales have typically been highest during the third and fourth quarters of the year, representing the principal seasonal effect. Generally, seasonal working capital needs peak during the summer months and have been met by issuing commercial paper.

Over the past three years, cash requirements for share repurchases, capital expenditures, capitalized software additions, business acquisitions and dividend payments exceeded cash provided from operating activities and proceeds from business divestitures by $449.5 million. Total debt, including debt assumed, increased during the period by $454.4 million. Cash and cash equivalents increased by $6.7 million during the period.

The Corporation anticipates that capital expenditures will be in the range of $150 million to $170 million per annum during the next several years as a result of continued modernization of existing facilities and capacity expansion to support new products and line extensions. As of December 31, 1998, the Corporation's principal capital commitments included manufacturing capacity expansion and modernization.

In August 1996, the Corporation's Board of Directors declared a two-for-one split of the Common Stock and Class B Common Stock effective September 13, 1996, to stockholders of record August 23, 1996. The split was effected as a stock dividend by distributing one additional share for each share held. Unless otherwise indicated, all shares and per share information have been restated to reflect the stock split.

Under share repurchase programs which began in 1993, a total of 9,861,119 shares of Common Stock have been repurchased for approximately $287.5 million. Of the shares repurchased, 528,000 shares were retired, 529,498 shares were reissued to satisfy stock options obligations and the remaining 8,803,621 shares were held as Treasury Stock as of December 31, 1998. Additionally, the Corporation has purchased a total of 28,000,536 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $1.0 billion. As of December 31, 1998, a total of 36,804,157 shares were held as Treasury Stock and $112.5 million remained available for repurchases of Common Stock under a program approved by the Corporation's Board of Directors in February 1996. In February 1999, the Corporation purchased approximately 2.0 million shares, completing the 1996 repurchase program. Also in February, the Corporation's Board of Directors approved an additional share repurchase program authorizing the repurchase of up to $230 million of the Corporation's Common Stock of which $100.0 million was used to purchase approximately 1.6 million shares of Common Stock from the Milton Hershey School Trust.

In March 1997, the Corporation issued $150 million of 6.95% Notes due 2007 under a Form S-3 Registration Statement which was declared effective in November 1993. Proceeds from the debt issuance were used to repay a portion of the commercial paper borrowings associated with the Leaf acquisition.

In August 1997, the Corporation filed another Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to $500 million of additional debt securities. Also in August 1997, the Corporation issued $150 million of 6.95% Notes due 2012 and $250 million of 7.2% Debentures due 2027 under the November 1993 and August 1997 Registration Statements. Proceeds from the debt issuance were used to repay a portion of the short-term borrowings associated with the purchase of Common Stock from the Milton Hershey School Trust. As of December 31, 1998, $250 million of debt securities remained available for issuance under the August 1997 Registration

Statement. Proceeds from any offering of the $250 million of debt securities available under the shelf registration may be used for general corporate requirements which include reducing existing commercial paper borrowings, financing capital additions, and funding future business acquisitions and working capital requirements.

In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to $600 million with options to increase borrowings by $1.0 billion with the concurrence of the banks. Lines of credit previously maintained by the Corporation were significantly reduced when the credit facility agreements became effective. Of the total committed credit facility, $200 million was for a renewable 364-day term and $400 million was effective for a five-year term. In December 1998, the short-term credit facility agreement was renewed for a total of $177 million. The long-term committed credit facility agreement was amended and renewed in December 1997 and will expire in December 2002. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. The Corporation also had lines of credit with domestic and international commercial banks of $23.0 million and $20.7 million as of December 31, 1998 and 1997, respectively.

Cash Flow Activities

Cash provided from operating activities totaled $1.4 billion during the past three years. Over this period, cash used by or provided from accounts receivable and inventories has tended to fluctuate as a result of sales during December and inventory management practices. The change in cash required for or provided from other assets and liabilities between the years was primarily related to commodities transactions, the timing of payments for accrued liabilities, including income taxes, and variations in the funding status of pension plans.

Investing activities included capital additions and business acquisitions and divestitures. Capital additions during the past three years included the purchase of manufacturing equipment, and expansion and modernization of existing facilities. In 1996, the Leaf business was acquired, and the Gubor, Sperlari, Planters and Life Savers businesses were sold. Cash used for the Leaf acquisition represented the purchase price paid and consisted of the current assets, property, plant and equipment, intangibles and other assets acquired, net of liabilities assumed.

Financing activities included debt borrowings and repayments, payment of dividends, the exercise of stock options, incentive plan transactions and the repurchase of Common Stock. During the past three years, short-term borrowings in the form of commercial paper or bank borrowings were used to fund seasonal working capital requirements, business acquisitions, share repurchase programs and purchases of Common Stock from the Milton Hershey School Trust. The proceeds from the issuance of long-term debt were used to reduce short-term borrowings. During the past three years, a total of 11,909,849 shares of Common Stock has been repurchased for $589.9 million. Cash requirements for incentive plan transactions were $103.2 million during the past three years, partially offset by cash received from the exercise of stock options of $55.8 million.

ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS

The Corporation utilizes certain derivative instruments, including interest rate swaps, foreign currency forward exchange contracts and commodity futures and options contracts, to manage interest rate, currency exchange rate and commodity market price risk exposures. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Commodity futures and options contracts are entered into for varying periods and are intended and effective as hedges of anticipated

raw material purchases. The Corporation does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage or prepayment features. In entering into these contracts, the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

The information below summarizes the Corporation's market risks associated with long-term debt and derivative instruments outstanding as of December 31, 1998. This information should be read in conjunction with Note 1, Note 5, Note 7, and Note 8 to the Consolidated Financial Statements.

Long-Term Debt

The table below presents the principal cash flows and related interest rates by maturity date for long-term debt as of December 31, 1998. The fair value of long-term debt was determined based upon quoted market prices for the same or similar debt issues.

	Maturity Date (In thousands of dollars except for rates)							
	1999	2000	2001	2002	2003	There-after	Total	Fair Value
Long-term Debt	$89	$2,203	$203	$194	$17,133	$859,370	$879,192	$1,002,275
Fixed Rate	2.0%	6.4%	2.0%	2.0%	4.4%	7.2%	7.1%	

Interest Rate Swaps

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt, principally commercial paper borrowings or bank loans with an original maturity of three months or less, to fixed rate debt. As of December 31, 1998 and 1997, the Corporation had agreements outstanding with an aggregate notional amount of $75.0 million and $150.0 million with maturities through September 1999 and September 1998, respectively. As of December 31, 1998 and 1997, interest rates payable were at a weighted average fixed rate of 6.3%. As of December 31, 1998 and 1997, interest rates receivable of 5.2% and 5.7%, respectively, were based on 30-day commercial paper composite rates. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at prevailing market rates. The potential loss in fair value of interest rate swaps resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1998 and 1997.

Foreign Exchange Contracts

The Corporation enters into foreign exchange forward contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments. In accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation," these contracts meet the conditions for hedge accounting treatment and accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, are recorded currently in income.

As of December 31, 1998, the Corporation had foreign exchange forward contracts maturing in 1999 and 2000 to purchase $10.5 million in foreign currency, primarily British sterling and Dutch gilders, and to sell $9.6 million in Japanese yen at contracted forward rates.

As of December 31, 1997, the Corporation had foreign exchange forward contracts maturing in 1998 and 1999 to purchase $19.2 million in foreign currency, primarily British sterling, and to sell $16.7 million in foreign currency, primarily Japanese yen and Canadian dollars, at contracted forward rates.

The fair value of foreign exchange forward contracts was estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of December 31, 1998 and 1997, the fair value of foreign exchange forward contracts approximated the contract value. The potential loss in fair value of foreign exchange forward contracts resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1998 and 1997.

Foreign Exchange Options

To hedge foreign currency exposure related to anticipated transactions associated with the purchase of certain raw materials and finished goods generally covering 3 to 24 months, the Corporation, from time to time, also purchases foreign exchange options which permit, but do not require, the Corporation to exchange foreign currencies at a future date with another party at a contracted exchange rate. Foreign exchange options are intended and effective as hedges of anticipated transactions. Accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on options designated as hedges of anticipated transactions which are no longer likely to occur are recorded currently in income.

As of December 31, 1998, no foreign exchange options were outstanding. As of December 31, 1997, the Corporation had purchased foreign exchange options of $3.6 million maturing in 1998, related to Swiss francs. The fair value of foreign exchange options is estimated using active market quotations. As of December 31, 1997, the fair value of foreign exchange options approximated the contract value. The potential loss in fair value of foreign exchange options contracts resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1997.

Commodity Price Risk Management

The Corporation's most significant raw materials include cocoa, sugar, milk, peanuts and almonds. The Corporation attempts to minimize the effect of future price fluctuations related to the purchase of these raw materials primarily through forward purchasing to cover future manufacturing requirements, generally for periods from 3 to 24 months. With regard to cocoa, sugar, corn sweeteners, natural gas and certain dairy products, price risks are also managed by entering into futures and options contracts. At the present time, active futures and options contracts are not available for use in pricing the Corporation's other major raw materials. Futures contracts are used in combination with forward purchasing of cocoa, sugar, corn sweetener, natural gas and certain dairy product requirements principally to take advantage of market fluctuations which provide more favorable pricing opportunities and to increase diversity or flexibility in sourcing these raw materials and energy requirements. The Corporation's commodity procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. Cocoa prices have risen since 1992 due to demand exceeding production. Recently, prices have declined somewhat as the economic difficulties in eastern Europe, particularly

Russia and Southeast Asia, have negatively impacted demand. During 1999, these negative demand influences could continue to keep cocoa futures prices contained. The Corporation's costs during 1999 will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

Commodities Futures and Options Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures and options contracts as deemed appropriate to reduce the effect of price fluctuations. In accordance with Statement of Financial Accounting Standards No. 80 "Accounting for Futures Contracts," these futures and options contracts meet the hedge criteria and are accounted for as hedges. Accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost. Gains and losses on futures and options designated as hedges of anticipated purchases which are no longer likely to occur are recorded currently in income.

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts are made on a daily basis and are included in other current assets or accrued liabilities on the consolidated balance sheets. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials and energy requirements in the future. Futures being held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated purchases.

The following sensitivity analysis reflects the market risk of the Corporation to a hypothetical adverse market price movement of ten percent, based on the Corporation's net commodity positions at four dates spaced equally throughout the year. The Corporation's net commodity positions consist of the excess of futures contracts held over unpriced physical forward contracts for the same commodities, relating to cocoa, sugar, corn sweeteners and natural gas. Inventories, priced forward contracts and estimated anticipated purchases not yet contracted for were not included in the sensitivity analysis calculations. A loss is defined, for purposes of determining market risk, as the potential decrease in fair value or the opportunity cost resulting from the hypothetical adverse price movement. The fair values of net commodity positions were based upon quoted market prices or estimated future prices including estimated carrying costs corresponding with the future delivery period.

For the years ended December 31,	1998		1997	
In millions of dollars	Fair Value	Market Risk (Hypothetical 10% Change)	Fair Value	Market Risk (Hypothetical 10% Change)
Highest long position	**$134.9**	**$13.5**	$210.8	$21.1
Lowest long position	**45.6**	**4.6**	39.6	4.0
Average position (long)	**76.3**	**7.6**	96.2	9.6

Sensitivity analysis disclosures represent forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those presently anticipated or projected. The important factors that could affect the sensitivity analysis disclosures include significant increases or decreases in market prices reflecting fluctuations attributable to the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates, political unrest in producing countries and speculative influences in addition to changes in the Corporation's hedging strategies.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $129.0 million in 1998 and $121.5 million in 1997. The annual dividend rate on the Common Stock was $.96 per share, an increase of 9% over the 1997 rate of $.88 per share. The 1998 dividend represented the 24th consecutive year of Common Stock dividend increases.

On February 10, 1999, the Corporation's Board of Directors declared a quarterly dividend of $.24 per share of Common Stock payable on March 15, 1999, to stockholders of record as of February 24, 1999. It is the Corporation's 277th consecutive Common Stock dividend. A quarterly dividend of $.2175 per share of Class B Stock also was declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange (NYSE) under the ticker symbol "HSY." Approximately 79.0 million shares of the Corporation's Common Stock were traded during 1998. The Class B Stock is not publicly traded.

The closing price of the Common Stock on December 31, 1998, was $62 3/16. There were 44,364 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1998.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1998				
1st Quarter	**$ .22**	**$ .2000**	**$73 3/8**	**$59 11/16**
2nd Quarter	**.22**	**.2000**	**76 3/8**	**67 3/16**
3rd Quarter	**.24**	**.2175**	**72 5/16**	**60 1/2**
4th Quarter	**.24**	**.2175**	**75 13/16**	**60 3/4**
Total	**$ .92**	**$ .8350**		
1997				
1st Quarter	$ .20	$ .1800	$52 7/8	$42 1/8
2nd Quarter	.20	.1800	58 5/8	48 3/8
3rd Quarter	.22	.2000	59 15/16	51 7/8
4th Quarter	.22	.2000	63 7/8	50 5/8
Total	$ .84	$ .7600		

* NYSE-Composite Quotations for Common Stock by calendar quarter.

RETURN MEASURES

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 36.0% in 1998. Over the most recent five-year period, the return has ranged from 18.5% in 1994 to 36.0% in 1998. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the after-tax restructuring activities in 1994 and 1995, and the after-tax loss on the disposal of businesses in 1996.

Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 17.4% in 1998. Over the most recent five-year period, the return has ranged from 15.6% in 1994 to 17.8% in 1996. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as net income, excluding the after-tax restructuring activities in 1994 and 1995, the after-tax loss on disposal of businesses in 1996, and the after-tax effect of interest on long-term debt.

YEAR 2000 ISSUES

Year 2000 issues associated with information systems relate to the way dates are recorded and computed in many computer systems. These year 2000 issues could have an impact upon the Corporation's information technology (IT) and non-IT systems. Non-IT systems include embedded technology such as microcontrollers which are integral to the operation of most machinery and equipment. Additionally, year 2000 issues could have a similar impact on the Corporation's major business partners, including both customers and suppliers. While it is not currently possible to estimate the total impact of a failure of either the Corporation or its major business partners or suppliers to complete their year 2000 remediation in a timely manner, the Corporation has determined that it could suffer significant adverse financial consequences as a result of such failure.

Awareness and assessment of year 2000 issues regarding major business applications software and other significant IT systems began in 1990. A formal program to address year 2000 issues associated with IT systems was established in late 1995. In early 1998, a team was established with representatives from all major functional areas of the Corporation which assumed overall responsibility for ensuring that remediation of both IT and non-IT systems will be completed in time to prevent material adverse consequences to the Corporation's business, operations or financial condition. The Corporation expects that remediation of these systems will be essentially completed by the third quarter of 1999.

In late 1996, the Corporation approved a project to implement an enterprise-wide integrated information system to improve process efficiencies in all of the major functional areas of the Corporation, enabling the Corporation to provide better service to its customers. This system will replace most of the transaction systems and applications supporting operations of the Corporation. In addition to improving efficiency and customer service, another benefit of this system is that it is year 2000 compliant and will address year 2000 issues for approximately 80% of the Corporation's business applications software. As of December 31, 1998, approximately $62.1 million of capitalized software and hardware and $6.9 million of expenses have been incurred for this project. As of December 31, 1998, spending for implementation of this system was approximately 65% complete, with full implementation expected by the third quarter of 1999. Total commitments for this system and subsequently identified enhancements are expected to be approximately $110 million which will be financed with cash provided from operations and short-term borrowings.

The Corporation's mainframe, network and desktop hardware and software have recently been upgraded and are substantially year 2000 compliant. The Corporation is in the process of remediating year 2000 compliance issues associated with legacy information systems not being replaced by the integrated information system project, including process automation and factory management systems. During late 1998, the Corporation undertook an extensive review of its year 2000 remediation program. As a result of this review, the Corporation has undertaken additional testing to confirm its year 2000 compliance, but is otherwise maintaining its current program of remediation. As of December 31, 1998, remediation of both IT and non-IT systems was approximately 60% complete, reflecting the latest estimate of testing and work requirements to be performed. The total cost of remediation of IT and non-IT systems is expected to be in the range of $6.0 million to $8.0 million.

The Corporation is also in the process of assessing year 2000 remediation issues relating to its major business partners. All of the Corporation's major customers have been contacted regarding year 2000 issues related to electronic data interchange. The Corporation is also in the process of contacting its major suppliers of ingredients, packaging, facilities, logistics and financial services with regard to year 2000 issues. Because of the uncertainties associated with assessing the ability of major business partners to complete the remediation of their systems in time to prevent operational difficulties, the Corporation will continue to contact and/or visit major customers and suppliers to gain assurances that no significant adverse consequences will result due to their failure to complete remediation of their systems.

Year 2000 remediation, conversion, validation and implementation is continuing and, at the present time, it is expected that remediation to both the Corporation's IT and non-IT systems and those of major business partners will be completed in time to prevent material adverse consequences to the Corporation's business, operations or financial condition. However, contingency plans are being developed, including possible increases in raw material and finished goods inventory levels, and the identification of alternate vendors and suppliers. Additional contingency plans, to the extent feasible, will be developed for any potential failures resulting from year 2000 issues.

FORWARD LOOKING INFORMATION

The nature of the Corporation's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential" among others. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and grocery business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including income taxes; market demand for new and existing products; and raw material pricing.

Based upon preliminary information, potential financial results for the first quarter of 1999 may not compare favorably to the prior year's first quarter. Net sales are expected to be lower than in the prior year primarily reflecting the divestiture of the Corporation's pasta business in January 1999. Additionally, the timing of sales for seasonal and promoted items may result in lower confectionery and grocery sales compared to the first quarter of 1998. The divestiture of the Corporation's pasta business, higher amortization of capitalized software associated with the enterprise-wide integrated information system and an emphasis on expanding the distribution of the Corporation's products in new international markets will make the earnings comparison more difficult, considering a very strong first quarter of 1998.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, In thousands of dollars except per share amounts	1998	1997	1996
Net Sales	**$ 4,435,615**	$ 4,302,236	$ 3,989,308
Costs and Expenses:			
Cost of sales	**2,625,057**	2,488,896	2,302,089
Selling, marketing and administrative	**1,167,895**	1,183,130	1,124,087
Loss on disposal of businesses	—	—	35,352
Total costs and expenses	**3,792,952**	3,672,026	3,461,528
Income before Interest and Income Taxes	**642,663**	630,210	527,780
Interest expense, net	**85,657**	76,255	48,043
Income before Income Taxes	**557,006**	553,955	479,737
Provision for income taxes	**216,118**	217,704	206,551
Net Income	**$ 340,888**	$ 336,251	$ 273,186
Net Income Per Share—Basic	**$ 2.38**	$ 2.25	$ 1.77
Net Income Per Share—Diluted	**$ 2.34**	$ 2.23	$ 1.75
Cash Dividends Paid Per Share:			
Common Stock	**$ .920**	$ .840	$ .760
Class B Common Stock	**.835**	.760	.685

The notes to consolidated financial statements are an integral part of these statements.

HERSHEY FOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31,	1998	1997
In thousands of dollars		
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 39,024	$ 54,237
Accounts receivable—trade	451,324	360,831
Inventories	493,249	505,525
Deferred income taxes	58,505	84,024
Prepaid expenses and other	91,864	30,197
Total current assets	1,133,966	1,034,814
Property, Plant and Equipment, Net	1,648,058	1,648,237
Intangibles Resulting from Business Acquisitions	530,464	551,849
Other Assets	91,610	56,336
Total assets	$ 3,404,098	$ 3,291,236
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 156,937	$ 146,932
Accrued liabilities	294,415	371,545
Accrued income taxes	17,475	19,692
Short-term debt	345,908	232,451
Current portion of long-term debt	89	25,095
Total current liabilities	814,824	795,715
Long-term Debt	879,103	1,029,136
Other Long-term Liabilities	346,769	346,500
Deferred Income Taxes	321,101	267,079
Total liabilities	2,361,797	2,438,430
Stockholders' Equity:		
Preferred Stock, shares issued: none in 1998 and 1997	—	—
Common Stock, shares issued: 149,502,964 in 1998 and 149,484,964 in 1997	149,503	149,485
Class B Common Stock, shares issued: 30,447,908 in 1998 and 30,465,908 in 1997	30,447	30,465
Additional paid-in capital	29,995	33,852
Unearned ESOP compensation	(25,548)	(28,741)
Retained earnings	2,189,693	1,977,849
Treasury—Common Stock shares, at cost: 36,804,157 in 1998 and 37,018,566 in 1997	(1,267,422)	(1,267,861)
Accumulated other comprehensive loss	(64,367)	(42,243)
Total stockholders' equity	1,042,301	852,806
Total liabilities and stockholders' equity	$ 3,404,098	$ 3,291,236

The notes to consolidated financial statements are an integral part of these balance sheets.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, In thousands of dollars	1998	1997	1996
Cash Flows Provided from (Used by) Operating Activities			
Net income	**$ 340,888**	$ 336,251	$ 273,186
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	**158,161**	152,750	133,476
Deferred income taxes	**82,241**	16,915	22,863
Loss on disposal of businesses	**—**	—	35,352
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable—trade	**(90,493)**	(68,479)	5,159
Inventories	**12,276**	(33,538)	(41,038)
Accounts payable	**10,005**	12,967	14,032
Other assets and liabilities	**(124,118)**	85,074	15,120
Other, net	**745**	4,018	5,593
Net Cash Provided from Operating Activities	**389,705**	505,958	463,743
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	**(161,328)**	(172,939)	(159,433)
Capitalized software additions	**(42,859)**	(29,100)	—
Business acquisitions	**—**	—	(437,195)
Proceeds from divestitures	**—**	—	149,222
Other, net	**9,284**	21,368	9,333
Net Cash (Used by) Investing Activities	**(194,903)**	(180,671)	(438,073)
Cash Flows Provided from (Used by) Financing Activities			
Net change in short-term borrowings partially classified as long-term debt	**(36,543)**	(217,018)	210,929
Long-term borrowings	**—**	550,000	—
Repayment of long-term debt	**(25,187)**	(15,588)	(3,103)
Cash dividends paid	**(129,044)**	(121,546)	(114,763)
Exercise of stock options	**19,368**	14,397	22,049
Incentive plan transactions	**(22,458)**	(35,063)	(45,634)
Repurchase of Common Stock	**(16,151)**	(507,654)	(66,072)
Net Cash (Used by) Provided from Financing Activities	**(210,015)**	(332,472)	3,406
Increase (Decrease) in Cash and Cash Equivalents	**(15,213)**	(7,185)	29,076
Cash and Cash Equivalents as of January 1	**54,237**	61,422	32,346
Cash and Cash Equivalents as of December 31	**$ 39,024**	$ 54,237	$ 61,422
Interest Paid	**$ 89,001**	$ 64,937	$ 52,143
Income Taxes Paid	**123,970**	181,377	180,347

The notes to consolidated financial statements are an integral part of these statements.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands of dollars	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned ESOP Compensation	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of January 1, 1996	$—	$ 74,734	$ 15,241	$ 47,732	$ (35,128)	$1,694,696	$ (685,076)	$ (29,240)	$ 1,082,959
Comprehensive income (loss)									
Net income						273,186			273,186
Other comprehensive income (loss):									
Foreign currency translation adjustments								(3,635)	(3,635)
Comprehensive income									269,551
Dividends:									
Common Stock, $.76 per share						(93,884)			(93,884)
Class B Common Stock, $.685 per share						(20,879)			(20,879)
Two-for-one stock split		74,736	15,239			(89,975)			—
Conversion of Class B Common Stock into Common Stock		2	(2)						—
Incentive plan transactions				(426)					(426)
Exercise of stock options				(5,391)			(8,547)		(13,938)
Employee stock ownership trust transactions				517	3,193				3,710
Repurchase of Common Stock							(66,072)		(66,072)
Balance as of December 31, 1996	—	149,472	30,478	42,432	(31,935)	1,763,144	(759,695)	(32,875)	1,161,021
Comprehensive income (loss)									
Net income						336,251			336,251
Other comprehensive income (loss):									
Foreign currency translation adjustments								(9,368)	(9,368)
Comprehensive income									326,883
Dividends:									
Common Stock, $.84 per share						(98,390)			(98,390)
Class B Common Stock, $.76 per share						(23,156)			(23,156)
Conversion of Class B Common Stock into Common Stock		13	(13)						—
Incentive plan transactions				(879)					(879)
Exercise of stock options				(8,200)			(512)		(8,712)
Employee stock ownership trust transactions				499	3,194				3,693
Repurchase of Common Stock							(507,654)		(507,654)
Balance as of December 31, 1997	—	149,485	30,465	33,852	(28,741)	1,977,849	(1,267,861)	(42,243)	852,806
Comprehensive income (loss)									
Net income						340,888			340,888
Other comprehensive income (loss):									
Foreign currency translation adjustments								(18,073)	(18,073)
Minimum pension liability adjustments, net of tax benefit								(4,051)	(4,051)
Comprehensive income									318,764
Dividends:									
Common Stock, $.92 per share						(103,616)			(103,616)
Class B Common Stock, $.835 per share						(25,428)			(25,428)
Conversion of Class B Common Stock into Common Stock		18	(18)						—
Incentive Plan transactions				(985)					(985)
Exercise of stock options				(3,375)			16,590		13,215
Employee stock ownership trust transactions				503	3,193				3,696
Repurchase of Common Stock							(16,151)		(16,151)
Balance as of December 31, 1998	$—	$149,503	$30,447	$29,995	$(25,548)	$2,189,693	$(1,267,422)	$(64,367)	$1,042,301

The notes to consolidated financial statements are an integral part of these statements.

HERSHEY FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Corporation are discussed below and in other notes to the consolidated financial statements. Certain reclassifications have been made to prior year amounts to conform to the 1998 presentation. Unless otherwise indicated, all shares and per share information have been restated for the two-for-one stock split effective September 13, 1996.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, particularly for accounts receivable and certain current and long-term liabilities.

Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

Commodities Futures and Options Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures and options contracts as deemed appropriate to reduce the effect of price fluctuations. In accordance with Statement of Financial Accounting Standards No. 80 "Accounting for Futures Contracts," these futures and options contracts meet the hedge criteria and are accounted for as hedges. Accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment is computed using the straight-line method over the estimated useful lives.

Intangibles Resulting from Business Acquisitions

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill was $508.0 million and $527.6 million as of December 31, 1998 and 1997, respectively. Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over the estimated useful lives. The Corporation periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Corporation uses an estimate of the acquired business' undiscounted future cash flows compared to the related carrying amount of net assets, including goodwill, to determine if an impairment loss should be recognized.

Accumulated amortization of intangible assets resulting from business acquisitions was $132.3 million and $116.5 million as of December 31, 1998 and 1997, respectively.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS No. 130). SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components. SFAS No. 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. SFAS No. 130 is effective for the Corporation's 1998 financial statements.

Results of operations for foreign entities are translated using the average exchange rates during the period. For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded as a component of other comprehensive income (loss), "Foreign Currency Translation Adjustments."

A minimum pension liability adjustment is required when the actuarial present value of accumulated pension plan benefits exceeds plan assets and accrued pension liabilities, less allowable intangible assets. Minimum pension liability adjustments, net of income taxes, are recorded as a component of other comprehensive income (loss), "Minimum Pension Liability Adjustments."

Comprehensive income (loss) is reported on the Consolidated Statements of Stockholders' Equity and accumulated other comprehensive (loss) is reported on the Consolidated Balance Sheets.

Foreign Exchange Contracts

The Corporation enters into foreign exchange forward and options contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments and foreign exchange options contracts meet required hedge criteria for anticipated transactions. Accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, or of anticipated transactions which are no longer likely to occur, are recorded currently in income. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

License Agreements

The Corporation has entered into license agreements under which it has access to certain trademarks and proprietary technology, and manufactures and/or markets and distributes certain products. The rights under these agreements are extendible on a long-term basis at the Corporation's option subject to certain conditions, including minimum sales levels, which the Corporation has met. License fees and royalties, payable under the terms of the agreements, are expensed as incurred.

Research and Development

The Corporation expenses research and development costs as incurred. Research and development expense was $28.6 million, $27.5 million and $26.1 million in 1998, 1997 and 1996, respectively.

Advertising

The Corporation expenses advertising costs as incurred. Advertising expense was $187.5 million, $202.4 million and $174.2 million in 1998, 1997 and 1996, respectively. Prepaid advertising as of December 31, 1998 and 1997, was $12.1 million and $2.0 million, respectively.

Computer Software

In 1997, the Corporation began capitalizing certain costs of computer software developed or obtained for internal use. The amount capitalized as of December 31, 1998 and 1997, was $69.3 million and $29.1 million, respectively. If such costs were capitalized in prior years, the effect would not have been material. Software assets are classified as other non-current assets and are amortized over periods up to five years. Accumulated amortization of capitalized software was $2.8 million and $.2 million as of December 31, 1998 and 1997, respectively.

2. ACQUISITION AND DIVESTITURES

In December 1996, the Corporation acquired from an affiliate of Huhtamäki Oy (Huhtamaki), the international foods company based in Finland, Huhtamaki's Leaf North America (Leaf) confectionery operations for $437.2 million, plus the assumption of $17.0 million in debt. In addition, the parties entered into a trademark and technology license agreement under which the Corporation will manufacture and/or market and distribute in North, Central and South America Huhtamaki's confectionery brands including *Good & Plenty, Heath, Jolly Rancher, Milk Duds, PayDay* and *Whoppers*. Leaf's principal manufacturing facilities are located in Denver, Colorado; Memphis, Tennessee; and Robinson, Illinois.

In accordance with the purchase method of accounting, the purchase price of the Leaf acquisition was allocated on a preliminary basis to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values, which were revised and finalized by the anniversary date of the acquisition. Total liabilities assumed, including debt, were $138.0 million in 1996. Results subsequent to the date of the acquisition are included in the consolidated financial statements.

Had the acquisition of Leaf occurred at the beginning of 1996, pro forma consolidated results would have been as follows:

For the year ended December 31,	1996
In thousands of dollars except per share amounts	(unaudited)
Net sales	$4,473,950
Net income	234,000
Net income per share—Basic	1.52
Net income per share—Diluted	1.50

The pro forma results are based on historical financial information provided by Huhtamaki, including a business restructuring charge recorded by Huhtamaki in 1996, and adjusted to give effect to certain costs and expenses, including fees under the trademark and technology license agreement, goodwill amortization, interest expense and income taxes which would have been incurred by the Corporation if it had owned and operated the Leaf confectionery business throughout 1996. These

results are not necessarily reflective of the actual results which would have occurred if the acquisition had been completed at the beginning of the year, nor are they necessarily indicative of future combined financial results.

In December 1998, the Corporation announced that it had signed a definitive agreement providing for the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction was completed in January 1999, and included the *American Beauty, Ideal by San Giorgio, Light 'n Fluffy, Mrs. Weiss, P&R, Ronzoni, San Giorgio* and *Skinner* pasta brands, along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of \$450.0 million, retained a 6% minority interest and recorded an after-tax gain of approximately \$165.0 million or \$1.13 per share—diluted as a result of the transaction. Net sales for the pasta business were \$373.1 million, \$386.2 million and \$407.4 million for 1998, 1997 and 1996, respectively. Net income for the pasta business was \$25.9 million, \$25.2 million and \$18.7 million for 1998, 1997 and 1996, respectively.

In December 1996, the Corporation completed the sale to Huhtamaki of the outstanding shares of Gubor Holding GmbH (Gubor) and Sperlari S.r.l. (Sperlari). Gubor manufactures and markets high-quality assorted pralines and seasonal chocolate products in Germany and Sperlari manufactures and markets various confectionery and grocery products in Italy. The total proceeds from the sale of the Gubor and Sperlari businesses were \$121.7 million. The transaction resulted in an after-tax loss of \$35.4 million since no tax benefit associated with the transaction was recorded. Combined net sales for Gubor and Sperlari were \$216.6 million in 1996. The sale of Gubor and Sperlari allowed the Corporation to place additional focus on its North American markets and improve financial returns.

In January 1996, the Corporation completed the sale of the assets of Hershey Canada, Inc.'s *Planters* nut (Planters) business to Johnvince Foods Group and the *Life Savers* and *Breath Savers* hard candy and *Beech-Nut* cough drops (Life Savers) business to Beta Brands Inc. Both transactions were part of a restructuring program announced by the Corporation in late 1994.

3. RENTAL AND LEASE COMMITMENTS

Rent expense was \$39.6 million, \$31.8 million and \$25.3 million for 1998, 1997 and 1996, respectively. Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under non-cancelable operating leases with a remaining term in excess of one year as of December 31, 1998, were: 1999, \$13.3 million; 2000, \$13.0 million; 2001, \$12.7 million; 2002, \$12.2 million; 2003, \$9.3 million; 2004 and beyond, \$46.8 million.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, but may be implemented as of the beginning of any fiscal quarter after issuance. Retroactive application is not permitted. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded

in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. Changes in accounting methods will be required for derivative instruments utilized by the Corporation to hedge commodity price, foreign currency exchange rate and interest rate risks. Such derivatives include commodity futures and options contracts, foreign exchange forward and options contracts and interest rate swaps.

The Corporation anticipates the adoption of SFAS No. 133 as of January 1, 2000. As of December 31, 1998, net deferred losses on derivatives of approximately $16.5 million after tax would have been reported as a component of other comprehensive loss and classified as accumulated other comprehensive loss on the consolidated balance sheets upon adoption of SFAS No. 133.

5. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 1998 and 1997, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was $879.2 million as of December 31, 1998, compared to a fair value of $1.0 billion based on quoted market prices for the same or similar debt issues. The carrying value of long-term debt, including the current portion, was $904.2 million as of December 31, 1997, compared to a fair value of $961.0 million.

As of December 31, 1998, the Corporation had foreign exchange forward contracts maturing in 1999 and 2000 to purchase $10.5 million in foreign currency, primarily British sterling and Dutch gilders, and to sell $9.6 million in Japanese yen at contracted forward rates.

As of December 31, 1997, the Corporation had foreign exchange forward contracts maturing in 1998 and 1999 to purchase $19.2 million in foreign currency, primarily British sterling, and to sell $16.7 million in foreign currency, primarily Japanese yen and Canadian dollars, at contracted forward rates.

To hedge foreign currency exposure related to anticipated transactions associated with the purchase of certain raw materials and finished goods generally covering 3 to 24 months, the Corporation, from time to time, also purchases foreign exchange options which permit, but do not require, the Corporation to exchange foreign currencies at a future date with another party at a contracted exchange rate. No options were outstanding as of December 31, 1998. As of December 31, 1997, the Corporation had purchased foreign exchange options of $3.6 million, related to Swiss francs.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences, and the fair value of foreign exchange options is estimated using active market quotations. As of December 31, 1998 and 1997, the fair value of foreign exchange forward and options contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt to fixed rate debt. As of December 31, 1998 and 1997, the Corporation had agreements outstanding with an aggregate notional amount of $75.0 million and $150.0 million with maturities through September 1999 and September 1998, respectively. As of December 31, 1998 and 1997, interest rates payable were at a weighted average fixed rate of 6.3%. As of December 31, 1998 and 1997, interest rates receivable of 5.2% and 5.7%, respectively, were based on 30-day commercial paper composite rates. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

6. INTEREST EXPENSE

Interest expense, net consisted of the following:

For the years ended December 31,	1998	1997	1996
In thousands of dollars			
Long-term debt and lease obligations	**$67,538**	$48,737	$30,818
Short-term debt	**23,657**	32,284	22,752
Capitalized interest	**(2,547)**	(1,883)	(1,534)
Interest expense, gross	**88,648**	79,138	52,036
Interest income	**(2,991)**	(2,883)	(3,993)
Interest expense, net	**$85,657**	$76,255	$48,043

7. SHORT-TERM DEBT

Generally, the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to $600 million, with options to increase borrowings by $1.0 billion with the concurrence of the banks. Of the total committed credit facility, $200 million was for a renewable 364-day term and $400 million was effective for a five-year term. In December 1998, the short-term credit facility agreement was renewed for a total of $177 million. The long-term credit facility agreement was amended and renewed in December 1997 and will expire in December 2002. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. As of December 31, 1997, $150.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis. A similar reclassification was not recorded as of December 31, 1998, because the Corporation intends to reduce commercial paper borrowings during 1999.

The Corporation also maintains lines of credit arrangements with domestic and international commercial banks, under which it could borrow in various currencies up to approximately $23.0 million and $20.7 million as of December 31, 1998 and 1997, respectively, at the lending banks' prime commercial interest rates or lower. The Corporation had combined domestic commercial paper borrowings, including the portion classified as long-term debt as of December 31, 1997, and short-term foreign bank loans against its credit facilities and lines of credit of $345.9 million as of December 31, 1998, and $382.5 million as of December 31, 1997. The weighted average interest rates on short-term borrowings outstanding as of December 31, 1998 and 1997, were 5.2% and 5.7%, respectively.

The credit facilities and lines of credit were supported by commitment fee arrangements. The average fee during 1998 was less than .1% per annum of the commitment. The Corporation's credit facility agreements contain a financial covenant which requires that a specified interest and fixed charge ratio be maintained. These agreements are also subject to other representations and covenants which do not materially restrict the Corporation's activities. The Corporation is in compliance with all covenants included in the credit facility agreements. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which were included in accounts payable, were $57.0 million and $30.7 million as of December 31, 1998 and 1997, respectively.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

December 31,	1998	1997
In thousands of dollars		
Commercial Paper at interest rates ranging from 5.64% to 6.55%	**$ —**	$ 150,000
Medium-term Notes, 8.875% due 1998	**—**	25,000
6.7% Notes due 2005	**200,000**	200,000
6.95% Notes due 2007	**150,000**	150,000
6.95% Notes due 2012	**150,000**	150,000
8.8% Debentures due 2021	**100,000**	100,000
7.2% Debentures due 2027	**250,000**	250,000
Other obligations, net of unamortized debt discount	**29,192**	29,231
Total long-term debt	**879,192**	1,054,231
Less—current portion	**89**	25,095
Long-term portion	**$879,103**	$1,029,136

As of December 31, 1997, $150.0 million of commercial paper borrowings were reclassified as long-term debt. A similar reclassification was not recorded as of December 31, 1998, because the Corporation intends to reduce commercial paper borrowings during 1999.

In March 1997, the Corporation issued $150 million of 6.95% Notes due 2007 under the November 1993 Form S-3 Registration Statement. Proceeds from the debt issuance were used to repay a portion of the commercial paper borrowings associated with the Leaf acquisition.

In August 1997, the Corporation issued $150 million of 6.95% Notes due 2012 and $250 million of 7.2% Debentures due 2027 under the November 1993 and August 1997 Registration Statements. Proceeds from the debt issuance were used to repay a portion of the short-term borrowings associated with the purchase of Common Stock from the Milton Hershey School Trust.

Aggregate annual maturities during the next five years are: 1999, $.1 million; 2000, $2.2 million; 2001, $.2 million; 2002, $.2 million; and 2003, $17.1 million. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

9. INCOME TAXES

The provision for income taxes was as follows:

For the years ended December 31,	1998	1997	1996
In thousands of dollars			
Current:			
Federal	**$119,706**	$177,145	$158,040
State	**10,498**	20,252	23,288
Foreign	**3,673**	3,392	2,360
Current provision for income taxes	**133,877**	200,789	183,688
Deferred:			
Federal	**73,422**	9,370	12,952
State	**10,568**	5,103	8,134
Foreign	**(1,749)**	2,442	1,777
Deferred provision for income taxes	**82,241**	16,915	22,863
Total provision for income taxes	**$216,118**	$217,704	$206,551

The tax effects of the significant temporary differences which comprised the deferred tax assets and liabilities were as follows:

December 31,	1998	1997
In thousands of dollars		
Deferred tax assets:		
Post-retirement benefit obligations	**$ 87,954**	$ 91,706
Accrued expenses and other reserves	**96,843**	91,067
Accrued trade promotion reserves	**28,118**	30,905
Other	**21,530**	23,234
Total deferred tax assets	**234,445**	236,912
Deferred tax liabilities:		
Depreciation	**308,074**	302,675
Other	**188,967**	117,292
Total deferred tax liabilities	**497,041**	419,967
Net deferred tax liabilities	**$262,596**	$183,055
Included in:		
Current deferred tax assets, net	**$ 58,505**	$ 84,024
Non-current deferred tax liabilities, net	**321,101**	267,079
Net deferred tax liabilities	**$262,596**	$183,055

The following table reconciles the Federal statutory income tax rate with the Corporation's effective income tax rate:

For the years ended December 31,	1998	1997	1996
Federal statutory income tax rate	**35.0%**	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	**3.0**	3.4	4.7
Non-deductible acquisition costs	**.9**	.9	.6
Loss on disposal of businesses for which no tax benefit was provided	**—**	—	2.6
Other, net	**(.1)**	—	.2
Effective income tax rate	**38.8%**	39.3%	43.1%

In January 1999, the Corporation received a Notice of Proposed Deficiency (Notice) from the Internal Revenue Service (IRS) related to the years 1989 through 1996. The most significant issue pertains to the Corporate Owned Life Insurance (COLI) program which was implemented by the Corporation in 1989. The IRS proposed the disallowance of interest expense deductions associated with the underlying life insurance policies. The Corporation believes that it has fully complied with the tax law as it relates to its COLI program. The Corporation expects to file a protest of the proposed deficiency with the Appeals section of the IRS in early 1999 and intends to vigorously defend its position on this matter.

10. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws, respectively. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities. Other benefits include health care and life insurance provided by the Corporation under two post-retirement benefit plans.

Effective December 31, 1998, the Corporation adopted Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pension and Other Post-Retirement Benefits (SFAS No. 132). The provisions of SFAS No. 132 revise employers' disclosures about pension and other post-retirement benefit plans. It does not change the measurement or recognition of these plans.

A summary of the changes in benefit obligations and plan assets as of December 31, 1998 and 1997 is presented below:

	Pension Benefits		Other Benefits	
December 31,	**1998**	**1997**	**1998**	**1997**
In thousands of dollars				
Change in benefits obligation				
Benefits obligation at beginning of year	**$602,081**	$503,528	**$ 206,695**	$ 176,301
Service cost	**27,621**	26,177	**4,452**	4,390
Interest cost	**41,855**	39,385	**13,524**	13,395
Amendments	**(440)**	9,840	**(17,427)**	967
Actuarial loss	**72,944**	32,325	**54,698**	18,332
Acquisition	**—**	26,560	**(1,799)**	1,677
Other	**(2,440)**	(1,587)	**(228)**	(154)
Benefits paid	**(49,199)**	(34,147)	**(8,875)**	(8,213)
Benefits obligation at end of year	**692,422**	602,081	**251,040**	206,695
Change in plan assets				
Fair value of plan assets at beginning of year	**566,810**	450,426	**—**	—
Actual return on plan assets	**91,338**	86,405	**—**	—
Acquisition	**—**	38,328	**—**	—
Employer contribution	**20,634**	26,855	**8,875**	8,213
Other	**(1,542)**	(1,057)	**—**	—
Benefits paid	**(49,199)**	(34,147)	**(8,875)**	(8,213)
Fair value of plan assets at end of year	**628,041**	566,810	**—**	—
Funded status	**(64,381)**	(35,271)	**(251,040)**	(206,695)
Unrecognized transition obligation	**(91)**	193	**—**	—
Unrecognized prior service cost	**35,854**	39,337	**(33,202)**	(25,685)
Unrecognized net actuarial loss (gain)	**6,164**	(27,318)	**59,589**	4,330
Intangible asset	**(1,261)**	(6,336)	**—**	—
Accumulated other comprehensive income	**(6,750)**	—	**—**	—
Prior service cost recognized due to curtailment	**—**	—	**12,991**	—
Unrecognized prior service cost due to amendment	**—**	—	**(6,924)**	—
(Accrued) benefits cost	**$ (30,465)**	$ (29,395)	**$(218,586)**	$(228,050)
Weighted-average assumptions				
Discount rate	**6.40%**	7.00%	**6.40%**	7.00%
Expected long-term rate of return on assets	**9.50**	9.50	**N/A**	N/A
Rate of increase in compensation levels	**4.80**	4.80	**N/A**	N/A

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999 and future years.

The Corporation's acquisition of the Leaf business in 1996 included its pension plan. The Leaf pension plan was merged into the Hershey Foods Corporation Retirement Plan as of December 31, 1997.

As of December 31, 1998, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation, accumulated benefit obligation and the fair value of plan assets were $81.1 million, $66.9 million and $22.7 million, respectively.

As of December 31, 1997, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation and accumulated benefit obligation were $36.4 million and $34.9 million, respectively. As of December 31, 1997, there were no funded pension plans with accumulated benefit obligations in excess of plan assets.

A summary of the components of net periodic benefits cost for the years ended December 31, 1998 and 1997 is presented below:

	Pension Benefits		Other Benefits	
For the years ended December 31,	**1998**	**1997**	**1998**	**1997**
In thousands of dollars				
Components of net periodic benefits cost				
Service cost	**$ 27,621**	$ 26,177	**$ 4,452**	$ 4,390
Interest cost	**41,855**	39,385	**13,524**	13,395
Expected return on plan assets	**(53,399)**	(42,700)	**—**	—
Amortization of prior service cost	**2,941**	190	**(2,986)**	(2,252)
Recognized net actuarial loss (gain)	**717**	(1,652)	**—**	—
Other	**—**	—	**9**	6
Corporate sponsored plans	**19,735**	21,400	**14,999**	15,539
Multi-employer plans	**1,571**	1,627	**—**	—
Administrative expenses	**796**	864	**—**	—
Net periodic benefits cost	**$ 22,102**	$ 23,891	**$14,999**	$15,539

The Corporation has two post-retirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually, and the life insurance plan is non-contributory. Effective December 1998, for all eligible employees under age 45, the Corporation will provide annual contributions into the Employee Savings Stock Investment and Ownership Plan (ESSIOP) instead of providing coverage under the current retiree medical plan. This change resulted in the immediate recognition of a $13.0 million pre-tax gain which is not included above as a component of net periodic benefits cost. The changes apply to all U.S. full-time salaried employees, and all non-union hourly plant employees working outside of Hershey, PA.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point (Decrease)
In thousands of dollars		
Effect on total service and interest cost components	$ 940	$ (872)
Effect on post-retirement benefit obligation	12,935	(11,552)

A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities. In 1998, a minimum liability adjustment of $4.1 million, less allowable intangible assets, net of a deferred tax benefit of $2.7 million, was recorded as a component of other comprehensive loss and reported in accumulated other comprehensive loss as a component of stockholders' equity.

11. EMPLOYEE STOCK OWNERSHIP TRUST

The Corporation's employee stock ownership trust (ESOP) serves as the primary vehicle for contributions to its existing ESSIOP for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. During 1998 and 1997,

the ESOP received a combination of dividends on unallocated shares and contributions from the Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 159,176 shares of Common Stock each year. As of December 31, 1998, the ESOP held 927,863 allocated shares and 1,273,400 unallocated shares. All ESOP shares are considered outstanding for income per share computations.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $20 1/16 per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 1998, 1997 and 1996 was $1.0 million, $1.4 million and $1.8 million, respectively. Dividends paid on unallocated ESOP shares were $1.2 million in 1998 and $1.3 million in 1997 and 1996. The unearned ESOP compensation balance in stockholders' equity represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

12. CAPITAL STOCK AND NET INCOME PER SHARE

As of December 31, 1998, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1998, a combined total of 179,950,872 shares of both classes of common stock had been issued of which 143,146,715 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1998.

In August 1996, the Corporation's Board of Directors declared a two-for-one split of the Common Stock and Class B Common Stock effective September 13, 1996, to stockholders of record August 23, 1996. The split was effected as a stock dividend by distributing one additional share for each share held.

Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1998, 1997 and 1996, a total of 18,000 shares, 13,000 shares and 2,000 shares, respectively, of Class B Stock were converted into Common Stock.

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust), as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 14,531,294 shares of the Common Stock, and as Trustee for the benefit of Milton Hershey School, held 30,306,006 shares of the Class B Stock as of December 31, 1998, and was entitled to cast approximately 76% of the total votes of both classes of the Corporation's common stock. The Milton Hershey School Trust must approve the issuance of shares of Common Stock or any other action which would result in the Milton Hershey School Trust not continuing to have voting control of the Corporation.

A total of 9,861,119 shares of Common Stock have been repurchased for approximately $287.5 million under share repurchase programs which were approved by the Corporation's Board of Directors in 1993 and 1996. Of the shares repurchased, 528,000 shares were retired, 529,498 shares were reissued to satisfy stock options obligations and the remaining 8,803,621 shares were held as Treasury Stock as of December 31, 1998. In August 1997, the Corporation purchased an additional

9,900,990 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $500.0 million. This was in addition to the 18,099,546 shares purchased from the Milton Hershey School Trust in August 1995 for $500.0 million. A total of 36,804,157 shares were held as Treasury Stock as of December 31, 1998.

Basic and Diluted Earnings per Share were computed based on the weighted average number of shares of the Common Stock and the Class B Stock outstanding as follows:

For the year ended December 31, 1998	Income (Numerator)	Shares (Denominator)	Per-Share Amount
In thousands of dollars except shares and per share amounts			
Net Income per Share—Basic			
Net income	**$340,888**	**143,446,421**	**$2.38**
Effect of Dilutive Securities			
Stock options	**—**	**2,008,355**	
Performance stock units	**—**	**106,968**	
Restricted stock units	**—**	**1,238**	
Net Income per Share—Diluted			
Net income and assumed conversions	**$340,888**	**145,562,982**	**$2.34**

For the year ended December 31, 1997	Income (Numerator)	Shares (Denominator)	Per-Share Amount
In thousands of dollars except shares and per share amounts			
Net Income per Share—Basic			
Net income	$336,251	149,173,558	$2.25
Effect of Dilutive Securities			
Stock options	—	1,726,761	
Performance stock units	—	112,649	
Restricted stock units	—	3,389	
Net Income per Share—Diluted			
Net income and assumed conversions	$336,251	151,016,357	$2.23

For the year ended December 31, 1996	Income (Numerator)	Shares (Denominator)	Per-Share Amount
In thousands of dollars except shares and per share amounts			
Net Income per Share—Basic			
Net income	$273,186	154,333,549	$1.77
Effect of Dilutive Securities			
Stock options	—	1,270,177	
Performance stock units	—	84,697	
Restricted stock units	—	1,528	
Net Income per Share—Diluted			
Net income and assumed conversions	$273,186	155,689,951	$1.75

13. STOCK COMPENSATION PLAN

The long-term portion of the Key Employee Incentive Plan (KEIP), provides for grants of stock-based compensation awards to senior executives and key employees of one or more of the following: non-qualified stock options (fixed stock options), performance stock units, stock appreciation rights and restricted stock units. The KEIP also provides for the deferral of performance stock unit awards by participants. As of December 31, 1998, 15.3 million shares were authorized for grants under the long-term portion of the KEIP.

In 1996, the Corporation's Board of Directors approved a world-wide, broad-based employee stock option program, called HSY Growth. HSY Growth provides all eligible employees with a one-time grant of 100 non-qualified stock options. Under HSY Growth, over 1.2 million shares were granted on January 7, 1997.

The Corporation applies Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," and related Interpretations in accounting for the KEIP and HSY Growth. Accordingly, no compensation cost has been recognized for its fixed stock option grants. Had compensation cost for the Corporation's stock-based compensation plans been determined based on the fair value at the grant dates for awards under the KEIP and HSY Growth consistent with the method of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation," the Corporation's net income and net income per share would have been reduced to the pro forma amounts indicated below:

For the years ended December 31,		1998	1997	1996
In thousands of dollars except per share amounts				
Net income	As reported	**$340,888**	$336,251	$273,186
	Pro forma	**329,621**	330,710	266,517
Net income per share—Basic	As reported	**$ 2.38**	$ 2.25	$ 1.77
	Pro forma	**2.30**	2.22	1.73
Net income per share—Diluted	As reported	**$ 2.34**	$ 2.23	$ 1.75
	Pro forma	**2.26**	2.19	1.71

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yields of 1.6%, 1.9% and 2.4%, expected volatility of 21%, 20% and 20%, risk-free interest rates of 5.9%; 6.2% and 5.6%, and expected lives of 6.5, 5.7 and 7.5 years.

Fixed Stock Options

The exercise price of each option equals the market price of the Corporation's Common Stock on the date of grant. Under the KEIP, options are granted in January and generally vest at the end of the second year and have a maximum term of ten years. Options granted under the HSY Growth program vest at the end of the fifth year and have a term of ten years.

A summary of the status of the Corporation's fixed stock options as of December 31, 1998, 1997, and 1996, and changes during the years ending on those dates is presented below:

	1998		1997		1996	
Fixed Options	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	**6,713,920**	**$31.73**	5,902,220	$27.40	4,435,800	$22.54
Granted	**1,739,050**	**$61.22**	1,485,250	$44.64	2,619,200	$33.08
Exercised	**(751,600)**	**$25.78**	(656,350)	$21.94	(1,062,980)	$20.74
Forfeited	**(36,100)**	**$52.61**	(17,200)	$33.06	(89,800)	$31.92
Outstanding at end of year	**7,665,270**	**$38.91**	6,713,920	$31.73	5,902,220	$27.40
Options exercisable at year-end	**4,480,670**	**$28.45**	3,013,670	$24.38	3,670,020	$23.94
Weighted-average fair value of options granted during the year (per share)	**$ 18.30**		$ 11.66		$ 8.70	

The increase in the weighted-average fair value of options reflects higher grant prices and lower dividend yields.

The following table summarizes information about fixed stock options outstanding as of December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding as of 12/31/98**	**Weighted-Average Remaining Contractual Life in Years**	**Weighted-Average Exercise Price**	**Number Exercisable as of 12/31/98**	**Weighted-Average Exercise Price**
$17 11/16-26½	**2,194,970**	4.4	$23.63	**2,194,970**	$23.63
$33 1/16-44½	**3,728,050**	7.4	$37.50	**2,285,700**	$33.07
$56¼-63 11/16	**1,742,250**	9.0	$61.17	**—**	
$17 11/16-63 11/16	**7,665,270**	6.9	$38.91	**4,480,670**	$28.45

Performance Stock Units

Under the long-term portion of the KEIP, each January the Corporation grants selected executives and other key employees performance stock units whose vesting is contingent upon the achievement of certain performance objectives. If at the end of three-year performance cycles, targets for financial measures of earnings per share, economic value added and free cash flow are met, the full number of shares are awarded to the participants. The performance scores can range from 0% to 150% of the targeted amounts. The compensation cost charged against income for the performance-based plan was $6.6 million, $9.1 million and $5.8 million for 1998, 1997, and 1996, respectively. The

compensation cost associated with the long-term portion of the KEIP is recognized ratably over the three-year term based on the year-end market value of the stock. Performance stock units and restricted stock units granted for potential future distribution were as follows:

For the years ended December 31,	1998	1997	1996
Shares granted	**48,150**	95,250	86,000
Weighted-average fair value at date of grant	**$ 61.54**	$ 45.17	$ 33.56

Deferred performance stock units, deferred directors' fees and accumulated dividend amounts totaled 373,933 shares as of December 31, 1998.

No stock appreciation rights were outstanding as of December 31, 1998.

14. SUPPLEMENTAL BALANCE SHEET INFORMATION

Accounts Receivable—Trade

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances and anticipated discounts of $19.9 million and $15.8 million as of December 31, 1998 and 1997, respectively.

Inventories

The Corporation values the majority of its inventories under the last-in, first-out (LIFO) method and the remaining inventories at the lower of first-in, first-out (FIFO) cost or market. LIFO cost of inventories valued using the LIFO method was $342.9 million and $372.7 million as of December 31, 1998 and 1997, respectively, and all inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

December 31,	1998	1997
In thousands of dollars		
Raw materials	**$ 205,111**	$ 223,702
Goods in process	**38,420**	36,015
Finished goods	**340,442**	334,639
Inventories at FIFO	**583,973**	594,356
Adjustment to LIFO	**(90,724)**	(88,831)
Total inventories	**$ 493,249**	$ 505,525

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of $96.6 million and $144.0 million as of December 31, 1998 and 1997, respectively. Major classes of property, plant and equipment were as follows:

December 31,	1998	1997
In thousands of dollars		
Land	**$ 30,871**	$ 31,340
Buildings	**541,181**	540,729
Machinery and equipment	**2,130,735**	2,015,161
Property, plant and equipment, gross	**2,702,787**	2,587,230
Accumulated depreciation	**(1,054,729)**	(938,993)
Property, plant and equipment, net	**$ 1,648,058**	$ 1,648,237

Accrued Liabilities

Accrued liabilities were as follows:

December 31,	1998	1997
In thousands of dollars		
Payroll and other compensation	**$ 87,666**	$ 92,102
Advertising and promotion	**67,916**	86,184
Other	**138,833**	193,259
Total accrued liabilities	**$ 294,415**	$ 371,545

Other Long-term Liabilities

Other long-term liabilities were as follows:

December 31,	1998	1997
In thousands of dollars		
Accrued post-retirement benefits	**$ 206,345**	$ 216,901
Other	**140,424**	129,599
Total other long-term liabilities	**$ 346,769**	$ 346,500

15. SEGMENT INFORMATION

The Corporation operates in a single consumer foods line of business, encompassing the manufacture, distribution and sale of confectionery, grocery and pasta products. Consolidated net sales represented primarily sales of confectionery products. The Corporation's principal operations and markets are located in the United States. The Corporation also manufactures, markets, sells and distributes confectionery and grocery products in Canada and Mexico, imports and/or markets selected confectionery and grocery products in Japan, China and the Philippines, and markets confectionery products in over 90 countries worldwide.

Net sales and long-lived assets of businesses outside of the United States were not significant. Sales to Wal-Mart Stores, Inc. and Subsidiaries exceeded 10% of total net sales and amounted to approximately $619.1 million, $529.6 million and $471.3 million in 1998, 1997 and 1996, respectively.

16. QUARTERLY DATA (Unaudited)

Summary quarterly results were as follows:

Year 1998	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	**$1,098,076**	**$880,399**	**$1,217,237**	**$1,239,903**
Gross profit	**445,736**	**357,684**	**510,632**	**496,506**
Net income	**75,433**	**47,965**	**107,533**	**109,957**
Net income per share—Basic	**.53**	**.33**	**.75**	**.77**
Net income per share—Diluted[(a)]	**.52**	**.33**	**.74**	**.76**

Year 1997	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	$ 1,002,469	$ 905,729	$ 1,151,610	$ 1,242,428
Gross profit	413,188	375,411	479,006	545,735
Net income	68,894	50,564	100,673	116,120
Net income per share—Basic[(a)]	.45	.33	.68	.81
Net income per share—Diluted[(a)]	.45	.33	.67	.80

(a) Quarterly income per share amounts do not total to the annual amounts due to changes in weighted average shares outstanding during the year.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 28, 1998. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their audit was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of non-management directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen LLP and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998, appearing on pages A-12 through A-32. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

New York, New York
January 29, 1999

HERSHEY FOODS CORPORATION

ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

All dollar and share amounts in thousands except market price and per share statistics

	10-Year Compound Growth Rate		1998	1997	1996
Summary of Operations(a)					
Net Sales	7.42%	$	**4,435,615**	4,302,236	3,989,308
Cost of Sales	7.06%	$	**2,625,057**	2,488,896	2,302,089
Selling, Marketing and Administrative	7.33%	$	**1,167,895**	1,183,130	1,124,087
Non-recurring Credits/(Charges)(m)		$	**—**	—	(35,352)
Interest Expense, Net	11.08%	$	**85,657**	76,255	48,043
Income Taxes	8.96%	$	**216,118**	217,704	206,551
Income from Continuing Operations Before Accounting Changes	8.96%	$	**340,888**	336,251	273,186
Net Cumulative Effect of Accounting Changes		$	**—**	—	—
Discontinued Operations		$	**—**	—	—
Net Income	4.77%	$	**340,888**	336,251	273,186
Income Per Share:(b)					
From Continuing Operations Before Accounting Changes					
—Basic	11.52%	$	**2.38**	2.25	1.77(h)
—Diluted	11.33%	$	**2.34**	2.23	1.75
Net Cumulative Effect of Accounting Changes					
—Basic and Diluted		$	**—**	—	—
Net Income—Basic	7.27%	$	**2.38**	2.25	1.77(h)
Net Income—Diluted	7.09%	$	**2.34**	2.23	1.75
Weighted Average Shares Outstanding—Basic(b)			**143,446**	149,174	154,334
Weighted Average Shares Outstanding—Diluted(b)			**145,563**	151,016	155,690
Dividends Paid on Common Stock	7.68%	$	**103,616**	98,390	93,884
Per Share(b)	10.80%	$	**.920**	.840	.760
Dividends Paid on Class B Common Stock	10.83%	$	**25,428**	23,156	20,879
Per Share(b)	10.87%	$	**.835**	.760	.685
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales			**7.7%**	7.8%	7.7%(c)
Depreciation	12.22%	$	**138,489**	135,016	119,443
Advertising	6.59%	$	**187,505**	202,408	174,199
Promotion	7.39%	$	**469,709**	451,580	429,208
Payroll	6.55%	$	**563,045**	524,827	491,677
Year-end Position and Statistics(a)					
Capital Additions	4.72%	$	**161,328**	172,939	159,433
Total Assets	6.79%	$	**3,404,098**	3,291,236	3,184,796
Long-term Portion of Debt	14.20%	$	**879,103**	1,029,136	655,289
Stockholders' Equity	.36%	$	**1,042,301**	852,806	1,161,021
Operating Return on Average Stockholders' Equity			**36.0%**	33.4%	27.5%
Operating Return on Average Invested Capital			**17.4%**	17.5%	17.8%
Full-time Employees			**14,700**	14,900	14,000
Stockholders' Data(b)					
Outstanding Shares of Common Stock and Class B Common Stock at Year-end			**143,147**	142,932	152,942
Market Price of Common Stock at Year-end	16.94%	$	**62 3/16**	61 15/16	43 3/4
Range During Year		$	**76 3/8-59 11/16**	63 7/8-42 1/8	51 3/4-31 15/16

See Notes to the Eleven-Year Consolidated Financial Summary on page A-37.

1995	1994	1993	1992	1991	1990	1989	1988
3,690,667	3,606,271	3,488,249	3,219,805	2,899,165	2,715,609	2,420,988	2,168,048
2,126,274	2,097,556	1,995,502	1,833,388	1,694,404	1,588,360	1,455,612	1,326,458
1,053,758	1,034,115	1,035,519	958,189	814,459	776,668	655,040	575,515
151	(106,105)	80,642	—	—	35,540	—	—
44,833	35,357	26,995	27,240	26,845	24,603	20,414	29,954
184,034	148,919	213,642	158,390	143,929	145,636	118,868	91,615
281,919	184,219	297,233	242,598	219,528	215,882	171,054	144,506
—	—	(103,908)	—	—	—	—	—
—	—	—	—	—	—	—	69,443
281,919	184,219	193,325	242,598	219,528	215,882	171,054	213,949
1.70(i)	1.06 (j)	1.65(k)	1.34	1.21	1.19(l)	.95	.80
1.69	1.05	1.65	1.34	1.21	1.19	.95	.80
—	—	(.58)	—	—	—	—	—
1.70(i)	1.06 (j)	1.07(k)	1.34	1.21	1.19(l)	.95	1.18
1.69	1.05	1.07	1.34	1.21	1.19	.95	1.18
166,036	174,367	179,929	180,775	180,767	180,766	180,824	180,981
166,721	174,740	180,495	181,160	181,112	180,987	180,984	181,140
91,190	89,660	84,711	77,174	70,426	74,161(f)	55,431	49,433
.685	.625	.570	.515	.470	.495(f)	.370	.330
18,900	17,301	15,788	14,270	12,975	13,596(f)	10,161	9,097
.620	.5675	.5175	.4675	.425	.445(f)	.3325	.2975
7.6%	7.3%(d)	7.4%(e)	7.5%	7.6%	7.2%(g)	7.1%	6.7%
119,438	114,821	100,124	84,434	72,735	61,725	54,543	43,721
159,200	120,629	130,009	137,631	117,049	146,297	121,182	99,082
402,454	419,164	444,546	398,577	325,465	315,242	256,237	230,187
461,928	472,997	469,564	433,162	398,661	372,780	340,129	298,483
140,626	138,711	211,621	249,795	226,071	179,408	162,032	101,682
2,830,623	2,890,981	2,855,091	2,672,909	2,341,822	2,078,828	1,814,101	1,764,665
357,034	157,227	165,757	174,273	282,933	273,442	216,108	233,025
1,082,959	1,441,100	1,412,344	1,465,279	1,335,251	1,243,537	1,117,050	1,005,866
22.2%	18.5%	17.8%	17.3%	17.0%	16.6%	16.1%	17.5%
17.1%	15.6%	15.0%	14.4%	13.8%	13.4%	13.2%	13.3%
13,300	14,000	14,300	13,700	14,000	12,700	11,800	12,100
154,532	173,470	175,226	180,373	180,373	180,373	180,373	180,373
32 1/2	24 3/16	24 1/2	23 1/2	22 3/16	18 3/4	17 15/16	13
33 15/16-24	26 3/4-20 9/16	27 15/16-21 3/4	24 3/16-19 1/8	22 1/4-17 9/16	19 13/16-14 1/8	18 7/16-12 3/8	14 5/16-10 15/16

Notes to the Eleven-Year Consolidated Financial Summary

(a) All amounts, with the exception of the Return on Average Stockholders' Equity and Return on Average Invested Capital, have been restated for discontinued operations, where applicable. Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding the 1988 gain on disposal included in Discontinued Operations, the 1993 Net Cumulative Effect of Accounting Changes, and the after-tax impacts of the 1990 Restructuring Gain, Net, the 1993 Gain on Sale of the Investment Interest in Freia Marabou a.s (Freia), the 1994 Restructuring Charge, the net 1995 Restructuring Credit and the 1996 Loss on Sale of Businesses..

(b) All shares and per share amounts have been adjusted for the two-for-one stock split effective September 13, 1996.

(c) Calculated percent excludes the 1996 Loss on Sale of Businesses. Including the loss, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 6.8%.

(d) Calculated percent excludes the 1994 Restructuring Charge. Including the charge, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 5.1%.

(e) Calculated percent excludes the 1993 Gain on Sale of Investment Interest in Freia. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 8.5%.

(f) Amounts included a special dividend for 1990 of \$11.2 million or \$.075 per share of Common Stock and \$2.1 million or \$.0675 per share of Class B Common Stock.

(g) Calculated percent excludes the 1990 Restructuring Gain, Net. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 7.9%.

(h) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1996 included a \$.23 per share loss on the sale of the Gubor and Sperlari businesses. Excluding the impact of this loss, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been \$2.00.

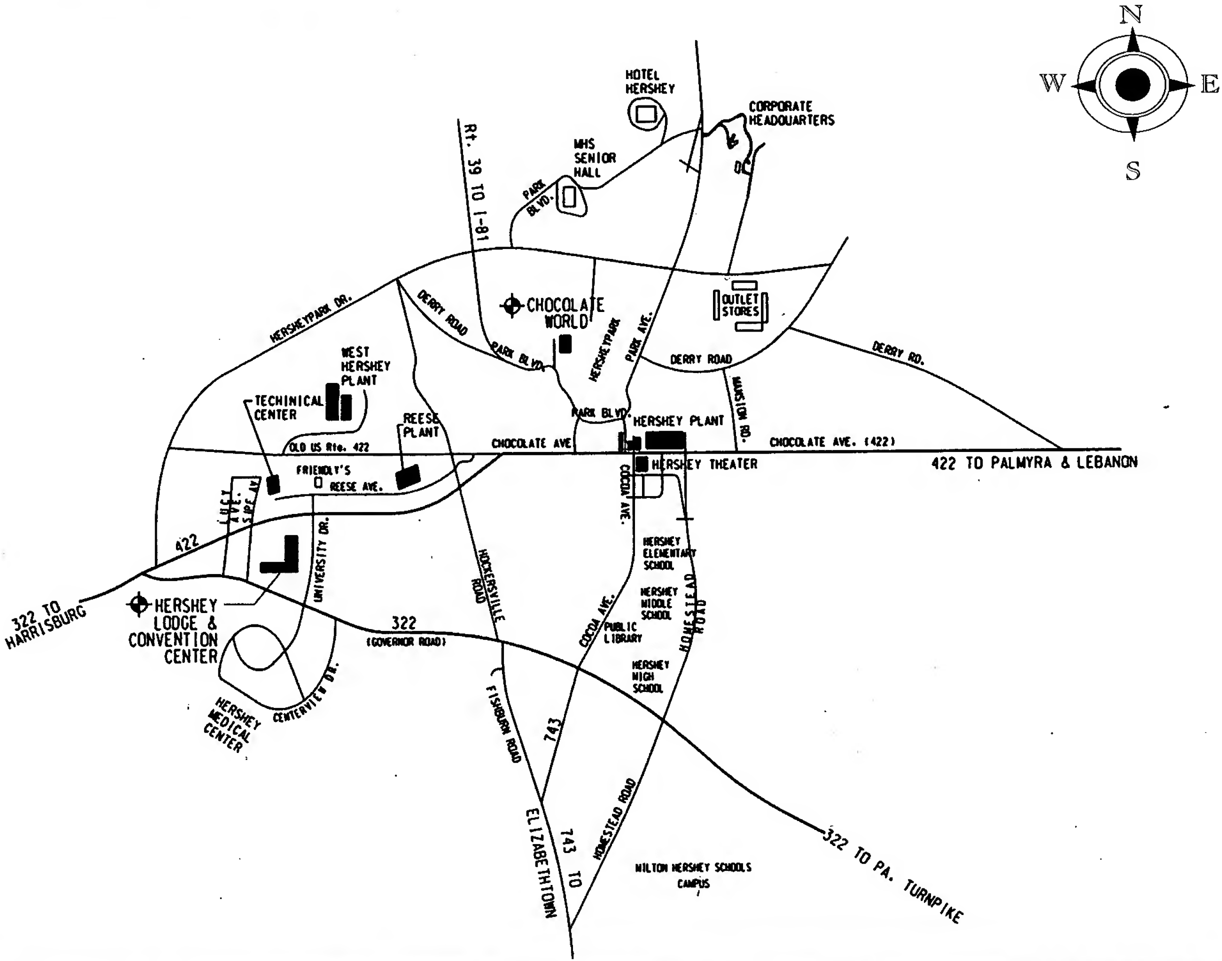
(i) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1995 included a net \$.01 per share credit associated with adjustments to accrued restructuring reserves. Excluding the impact of this net credit, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been \$1.69.

(j) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1994 included a \$.46 per share restructuring charge. Excluding the impact of this charge, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been \$1.52.

(k) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1993 included a \$.23 per share gain on the sale of the investment interest in Freia. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes—Basic would have been \$1.43.

(l) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1990 included an \$.11 per share Restructuring Gain, Net. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been \$1.08.

(m) Includes the Loss on Sale of Businesses in 1996; Restructuring Credit in 1995; Restructuring Charge in 1994; Gain on Sale of Investment Interest in 1993 and Restructuring Gain, Net in 1990.



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W
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S
HOTEL HERSHEY
CORPORATE HEADQUARTERS
MHS SENIOR HALL
PARK BLVD.
Rt. 39 TO I-81
HERSHEYPARK DR.
DERRY ROAD
CHOCOLATE WORLD
PARK BLVD.
HERSHEYPARK
PARK AVE.
OUTLET STORES
DERRY ROAD
DERRY RD.
MANSION RD.
WEST HERSHEY PLANT
TECHINICAL CENTER
REESE PLANT
PARK BLVD.
HERSHEY PLANT
OLD US Rte. 422
CHOCOLATE AVE
CHOCOLATE AVE. (422)
422 TO PALMYRA & LEBANON
FRIENDLY'S
REESE AVE.
HERSHEY THEATER
COCOA AVE.
LUCY AVE.
SIPE AV
422
UNIVERSITY DR.
HOCKERSVILLE ROAD
HERSHEY ELEMENTARY SCHOOL
HERSHEY MIDDLE SCHOOL
HOMESTEAD ROAD
322 TO HARRISBURG
HERSHEY LODGE & CONVENTION CENTER
322
(GOVERNOR ROAD)
COCOA AVE.
PUBLIC LIBRARY
HERSHEY HIGH SCHOOL
CENTERVIEW DR.
HERSHEY MEDICAL CENTER
FISHBURN ROAD
743
HOMESTEAD ROAD
ELIZABETHTOWN
743 TO
MILTON HERSHEY SCHOOLS CAMPUS
322 TO PA. TURNPIKE